Annual Report 2003

Towards New Heights

FORTIS INC.

Corporate Profile

Fortis Inc. (the "Corporation") is a diversified international electric utility holding company with assets exceeding $2.2 billion and annual revenues of approximately $843 million.

Fortis has holdings in 5 companies which are primarily regulated electric distribution utilities. **Newfoundland Power** is the principal distributor of electricity in Newfoundland. **FortisOntario** distributes electricity in the Fort Erie, Port Colborne, Cornwall and Gananoque areas of Ontario. **Maritime Electric** is the principal distributor of electricity on Prince Edward Island. **Belize Electricity** is the distributor of electricity in Belize, Central America. **Caribbean Utilities** is the sole provider of electricity on Grand Cayman, Cayman Islands.

The Corporation has 3 subsidiaries engaged solely in electricity generation. **Belize Electric ("BECOL")** owns and operates the 25-megawatt ("MW") Mollejon hydroelectric facility in Belize. **FortisUS Energy**, a wholly owned subsidiary of Maritime Electric, operates 4 hydroelectric generating stations with a combined capacity of 23 MW in upper New York State. **Central Newfoundland Energy**, a wholly owned subsidiary, holds a 51 per cent interest in a partnership that operates 2 hydroelectric generating facilities with a combined capacity of 95 MW in central Newfoundland.

Fortis owns a non-utility company, **Fortis Properties**, which owns and operates hotels in Atlantic Canada and Ontario and commercial real estate in Atlantic Canada.

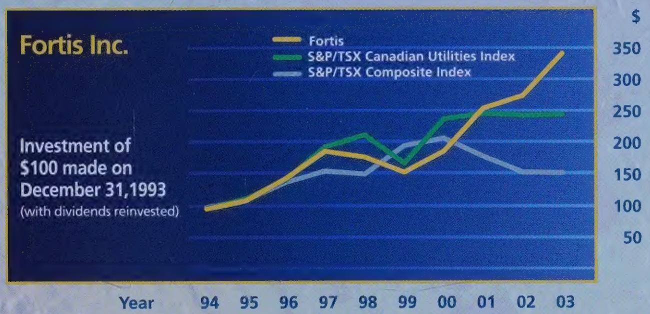
The Fortis Group of Companies has 2,700 employees. Fortis utilities serve 425,000 electricity customers and meet a combined peak demand of 1,731 MW.

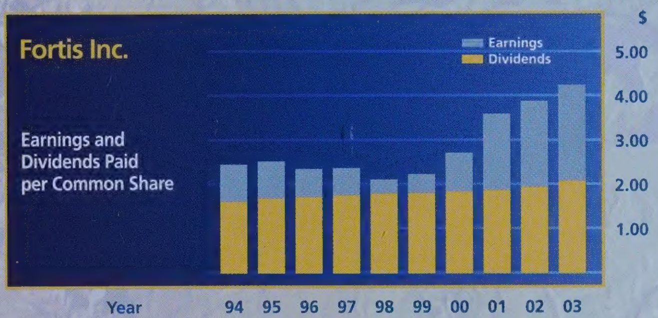
In September 2003, Fortis entered into an agreement with Aquila, Inc. for the purchase of its regulated electric utilities in Alberta and British Columbia. The companies provide electricity to more than 525,000 customers primarily in southern and central Alberta and southern British Columbia. The closing of the transaction is subject to fulfillment of customary conditions including certain utility regulatory approvals. The transaction is expected to close in the first half of 2004.

Table of Contents

Cover Photographer: *Ned Pratt (ned@nfld.net), St. John's, NL*

Unless otherwise specified, all dollar amounts in this Annual Report are expressed in Canadian dollars.





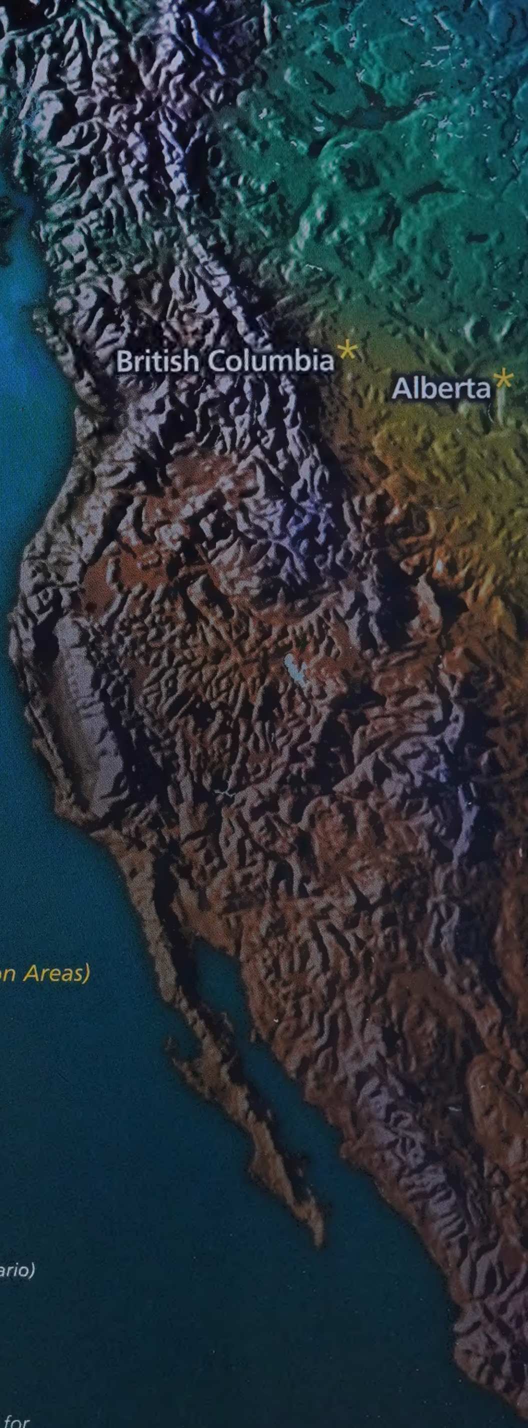
Annual Comparison *($ millions)*

	2003	2002
Operating revenues	**843.1**	715.5
Earnings applicable to common shares	**73.6**	63.3
Total assets	**2,211.0**	1,987.0
Total shareholders' equity	**737.7**	585.8 (1)
Cash from operations (2)	**144.1**	128.9

(1) Amount restated to reflect equity portion of Convertible Debentures.
(2) Before working capital adjustments

Quarterly Earnings and Dividends Paid per Common Share *($)*

	2003		2002	
Quarter Ended	**Earnings**	**Dividends**	Earnings	Dividends
March 31	**1.15**	**0.52**	0.99	0.47
June 30	**1.20**	**0.52**	1.05	0.49
September 30	**1.05**	**0.52**	1.05	0.49
December 31	**0.85**	**0.52**	0.80	0.49
Annual Totals	**4.25**	**2.08**	3.89	1.94



Electric Distribution Utilities *(Service Areas)*

Newfoundland Power *(Newfoundland)*

FortisOntario *(Ontario)*

Maritime Electric *(Prince Edward Island)*

Belize Electricity *(Belize)*

Caribbean Utilities *(Grand Cayman)*

Hydroelectric Generating Companies *(Production Areas)*

BECOL *(Belize)*

FortisUS Energy *(upper New York State)*

Central Newfoundland Energy *(Newfoundland)*

Non-Utility Company *(Operating Areas)*

Fortis Properties *(Newfoundland, Nova Scotia, New Brunswick and Ontario)*

** In September 2003, Fortis entered into an agreement with Aquila, Inc. for the purchase of its regulated electric utilities in Alberta and British Columbia. The companies provide electricity to more than 525,000 customers primarily in southern and central Alberta and southern British Columbia. The closing of the transaction is subject to fulfillment of customary conditions including certain utility regulatory approvals. The transaction is expected to close in the first half of 2004.*


Newfoundland
Prince Edward Island
New Brunswick
Nova Scotia
Ontario
New York State
Cayman Islands
Belize

Report to Shareholders

Towards New Heights

Reliability of service to customers is a key priority.

For the fourth consecutive year, Fortis has provided record earnings to shareholders. Earnings were $73.6 million, up 16.3 per cent over 2002. Earnings per common share were $4.25 compared to $3.89 last year.

Dividends were increased to $2.08 from $1.96 on an annualized basis. In the fourth quarter, dividends were increased to $2.16 on an annualized basis, marking the 31st consecutive year dividends paid to shareholders have increased.

Earnings

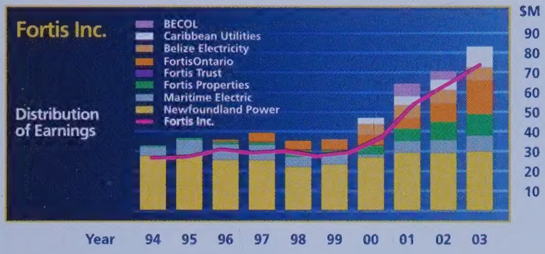
Fortis delivered record earnings of $73.6 million.

Fortis' market capitalization surpassed $1.0 billion in 2003. The closing share price was $58.90. The average daily trading volume was approximately 31,000. Over the last 5 years, average daily trading volume has increased more than 3.6 times.

Since 1998, assets have more than doubled, reaching $2.2 billion in 2003. In that time, earnings per common share have grown at an average annualized rate of 15.4 per cent and total shareholder returns (share price appreciation and reinvested dividends) have averaged 14.4 per cent on an annualized basis.

Fortis' strong performance this year reflects the diversification of its assets. Our increased investments in Ontario, combined with higher wholesale electricity prices in that market, and our increased investment in Caribbean Utilities mitigated the impact of lower-than-normal rainfall levels on earnings at BECOL and the effect of the depreciation of the US dollar on foreign investments.

Towards New Heights



Our regulated utilities and generating companies provide a good blend of low-risk domestic operations and high-growth international assets. Our utility companies, including our investment in Caribbean Utilities, contributed $71.2 million, almost 17 per cent higher than last year.

Regulatory oversight is pervasive in the utility business and 2003 was another busy year. We work hard to develop strong relationships with our regulators and we have a demonstrated ability to adapt quickly to changes in regulation. The Order issued by the Newfoundland and Labrador Board of Commissioners of Public Utilities with respect to Newfoundland Power's 2003 General Rate Application reflects an increased allowed return on equity for the Company to 9.75 per cent from 9.05 per cent and moves it more in line with other regulated Canadian utilities. The Government of Prince Edward Island introduced legislation to return Maritime Electric to traditional cost of service regulation, effective January 1, 2004. Management continues to work closely with Government to ensure a smooth and successful transition and believes the return to traditional cost of service will result in more certainty and predictability of operational earnings and, ultimately, a more stable regulatory environment. Caribbean Utilities and the Government of the Cayman Islands commenced discussions concerning changes to the regulatory regime specified in its licence and an extension of that licence beyond 2011.

(l-r) Mr. Lynn Young, President and Chief Executive Officer, Belize Electricity, Mr. H. Stanley Marshall, President and Chief Executive Officer, Fortis Inc., Hon. John Briceno, Deputy Prime Minister, Government of Belize and H.E. Sir Colville N. Young, Governor-General of Belize at inauguration of the 22-MW Westlake gas turbine in Belize.

Towards New Heights

The legislation introduced by the Government of Ontario late in 2002 to freeze consumer electricity rates at 4.3 cents per kilowatt hour did not have a significant impact on the distribution revenues of FortisOntario in 2003. The wholesale electricity market remained operational and open for competition among existing generators. Throughout 2003, FortisOntario sold its available wholesale supply of 75 MW into the Ontario electricity market, where the market price averaged $54.09 per megawatt hour. Late 2003, the new government in Ontario introduced legislation signalling the Government's intention to move Ontario electricity consumers towards an electricity pricing model that more closely reflects the true cost of energy while providing a means to manage price volatility for the average consumer.

Fortis utilities serve 425,000 customers and meet a combined peak demand of 1,731 MW.

In May, we started construction on the Chalillo Project in Belize, which had been delayed by a series of legal challenges by an environmental group. This upstream storage and hydroelectric facility will improve reliability of energy supply to customers and make the country more nearly self-sufficient in meeting its growing energy demand. Completion is expected in 2005. We are pleased with a ruling by the Judicial Committee of the Privy Council, early in 2004, which dismissed the appeal against earlier court decisions upholding the Government of Belize's approval of construction of the Chalillo Project. Since our initial investment in the country in 1999, we have worked closely with the Government of Belize to develop the country's energy resources. All regulatory approvals were received after the most rigorous environmental assessment in the history of Belize, which has a world-class reputation for preserving its natural environment. Construction of this major project is of significant importance to the country's economy. The Chalillo Project is the best energy supply option to help meet the growing energy demands of Belize.

The Exploits River Hydro Partnership ("Exploits Partnership") completed all work associated with the redevelopment of Abitibi-Consolidated Company of Canada's hydroelectric plants in central Newfoundland. The redevelopment will ensure a continuing source of stable, renewable energy to the paper mill in Grand Falls-Windsor and will also provide supply to meet some of the growing energy demands in Newfoundland.

A commitment to provide customers with quality service is integral to daily operations.

Fortis Properties earned $11.0 million in 2003, its sixth consecutive year of record financial results. The earnings growth of approximately 18 per cent over the previous year primarily relates to properties acquired in 2002.

Fortis continues to grow profitably through our disciplined acquisition strategy.

In January 2003, Fortis increased its investment in Caribbean Utilities from approximately 22 per cent to 38 per cent, becoming the Company's largest shareholder. The strengthening of our relationship with Caribbean Utilities continues to provide further value to both companies and to our shareholders.

We have continued the strategic expansion of our electric utility business in Ontario. In 2003, FortisOntario acquired the operating subsidiaries of Granite Power Corporation ("Granite Power") in Gananoque. Granite Power adds 3,800 distribution customers in Ontario and increases hydroelectric generating capacity by 8 MW.

Strategy

Fortis continues to grow profitably through disciplined acquisitions.

Fortis Properties achieved a milestone with its first acquisition outside Atlantic Canada. The Company acquired 4 hotels in Ontario which closely reflect the customer and operational profiles of its other 8 hotels.

Report to Shareholders

Towards New Heights

In September, Fortis entered into agreements with Aquila, Inc. for the purchase of its regulated electric utilities in Alberta and British Columbia. The $1.4 billion acquisition, which is expected to close in the first half of 2004, gives us a significant presence in western Canada. It is a unique opportunity to leverage our strengths – regulated electric distribution and small hydroelectric generation. These utilities will reduce our business risks through greater regulatory and geographic diversity. Upon closing, regulated assets will comprise approximately 84 per cent of Fortis' total operating assets. Assets in Canada will represent approximately 82 per cent of the Corporation's asset base.

Strengths

Regulated electric distribution and small hydroelectric generation.

In the capital markets, Fortis secured $1.3 billion in short-term commitments to finance the acquisition of the businesses in western Canada. This acquisition financing is being replaced with permanent financing in the form of common equity, preferred equity and long-term debt. In October, Fortis raised gross proceeds of approximately $350 million, through a public offering of Subscription Receipts, to fulfill the common equity financing related to this acquisition. Subsequent to year end, Preference Share Units were issued which, upon closing, will be converted into $200 million of Preference Share securities of Fortis. Most of the remainder of the debt will be financed at the operating company levels.

The regulated electric utilities in western Canada serve 525,000 customers in southern and central Alberta and southern British Columbia.

Towards New Heights

Fortis also raised $125 million through the issue of First Preference Shares in mid-2003. The proceeds of that issue were used to strengthen the Corporation's balance sheet by reducing certain short-term debt. On a consolidated basis, Fortis companies raised more than $600 million in the capital markets during the year. Investors have demonstrated confidence in our business strategy as we remain focused on growing our business profitably.

A number of key leadership changes have been initiated in the management structure of the Fortis Companies as we expand. Effective January 1, 2004, Mr. Karl Smith, formerly Vice President, Finance and Chief Financial Officer of Fortis, has been appointed President and Chief Executive Officer of Newfoundland Power. He succeeds Mr. Philip Hughes, who has moved to Alberta to lead the integration of the western Canadian utilities into the Fortis Group. Mr. Barry Perry, formerly Vice President, Finance and Chief Financial Officer of Newfoundland Power, has been appointed Vice President, Finance and Chief Financial Officer of Fortis.

We thank our employees for their hard work, skill and commitment in delivering stellar results. We thank our Board of Directors for their insight and guidance as we continue to pursue our strategy of long-term, profitable growth. We extend our gratitude and best wishes to Mr. Darryl Fry, who has served on our Board since 1998 and will not be standing for re-election in 2004.

Fortis has positioned itself as the leading Canadian electric distribution utility. As we move towards new heights, we will continue to grow the business we know best, applying our expertise to deliver value to shareholders and quality service to customers.

Positioning

Fortis has positioned itself as the leading Canadian electric distribution utility.

On behalf of the Board of Directors,

H. Stanley Marshall
President and
Chief Executive Officer
Fortis Inc.

Angus A. Bruneau
Chair of the Board
Fortis Inc.

Towards New Heights

For almost 120 years, Fortis, through its operating companies, has been a generator and distributor of electricity. The Corporation was structured as a holding company in 1987 to enhance shareholder value through growth and diversification. Today, Fortis has holdings in 5 companies which are primarily regulated electric distribution utilities in Newfoundland, Prince Edward Island, Ontario, Belize and the Cayman Islands and in 3 subsidiaries engaged solely in electricity generation in Newfoundland, New York State and Belize. Fortis Properties is the Corporation's vehicle for non-utility growth and diversification.

In 16 years, Fortis has grown from a single utility with assets of $390 million into an international diversified holding company with assets of approximately $2.2 billion. Growth has been most predominant in the last 5 years, over which time the Corporation's assets have almost doubled. Earnings applicable to common shares have grown to $73.6 million in 2003 from $27.4 million in 1998. Over that period, earnings per common share have grown to $4.25 from $2.12.

H. Stanley Marshall, President and Chief Executive Officer, Fortis Inc. (left) and Karl W. Smith, President and Chief Executive Officer, Newfoundland Power (right)*

At Fortis, our principal business is and will remain the ownership and operation of electric distribution utilities. Our first priority remains the continued profitable expansion of our existing operations. We will also pursue opportunities to acquire other utilities in Canada, the Caribbean and the northeastern United States. We will apply higher return criteria to international assets to offset the increase in the risk profile.

Through its subsidiaries, Fortis has been serving electricity customers for almost 120 years.

The non-utility business operations of Fortis support the Corporation's utility growth and acquisition strategy. Fortis Properties will continue to grow in size and profitability, providing flexibility in financial and tax planning not generally possible with respect to utilities because of regulatory and public policy constraints. Fortis will maintain approximately 15 per cent to 20 per cent of its assets in non-utility businesses.

*In January 2004, Mr. Smith was appointed President and Chief Executive Officer, Newfoundland Power. He previously held the position of Vice President, Finance and Chief Financial Officer, Fortis Inc.

Towards New Heights

In 2003, Fortis entered into agreements with Aquila, Inc. for the purchase of their regulated Canadian businesses in Alberta and British Columbia. The $1.4 billion acquisition, which is expected to close in the first half of 2004, gives us a significant presence in the electric utility industry in western Canada and strategically positions Fortis as the leading Canadian electric distribution utility. The acquisition will allow Fortis the opportunity to continue our profitable growth strategy of the last decade.

Our vision is to be the world leader in those segments of the electricity industry in which we operate and the leading service provider within our service areas. In all our operations, Fortis will manage resources prudently and deliver quality service to maximize value to our customers and our shareholders. We will continue to focus on 3 primary objectives:

i) Our earnings should continue at a rate commensurate with that of a well-run Canadian utility.

ii) The financial and business risks of Fortis' overall operations should not be substantially greater than those associated with the operation of a Canadian utility.

iii) Our growth in assets and market capitalization should be greater than the average of other Canadian public corporations of similar size.

Our primary focus, over the next couple of years, will be the successful integration of the regulated electric utility businesses in Alberta and British Columbia within the Fortis Group of Companies.

Focus

Successful integration of utilities in Alberta and British Columbia.

Our utilities provide a good mix of established, low-risk domestic operations and high-growth international assets. Our corporate philosophy is to grow only if it can be done profitably. We have a strong record of profitable growth. We believe Fortis should continue to build upon its record without significantly disturbing the risk-reward balance traditionally associated with the operation of electric utilities.

The solid performance of the Corporation in delivering quality service to customers and good returns to our shareholders is driven by the dedication and competence of our employees. Integrity, accountability and autonomy are the core values upon which Fortis is structured.

Investment in capital initiatives helps control costs and enhances reliability of service to customers.

Operations

Newfoundland Power

Newfoundland Power operates an integrated generation, transmission and distribution system in Newfoundland. The Company serves approximately 222,000 customers, or 85 per cent of electricity consumers in the Province, and meets a peak demand of 1,135 MW. Approximately 90 per cent of its energy requirement is purchased from Newfoundland and Labrador Hydro ("Newfoundland Hydro"). Newfoundland Power has an installed generating capacity of 144 MW of which 95 MW is hydroelectric generation.

The Company manages its business prudently, pursuing productivity and operational improvements for the benefit of its customers. Through its Asset Management Program, timely maintenance work is performed to extend the useful life of assets, improving reliability and reducing capital expenditures over the long term. A focus on controlling costs enables Newfoundland Power to perform well compared to others in its industry. The Company's electricity rates are the lowest in Atlantic Canada.


Philip G. Hughes, President and Chief Executive Officer (left) and Barry V. Perry, Vice President, Finance and Chief Financial Officer (right), Newfoundland Power Inc.*

Newfoundland Power strives to ensure every contact with customers is pleasant, efficient and productive.

Providing electricity service to customers 24 hours a day, 365 days a year requires a strong emphasis on safety and productivity. The electricity system in Newfoundland is an isolated, stand-alone system not connected to the North American grid. The Province experiences some of the most challenging weather conditions, including severe wind, snow and ice storms, experienced anywhere in the world. Despite these challenges, a focus on operational efficiency enabled Newfoundland Power to achieve a reliability level of 99.94 per cent in 2003.

*In January 2004, Mr. Hughes was appointed to lead the integration of the utilities in western Canada into the Fortis Group. Mr. Perry was appointed Vice President, Finance and Chief Financial Officer, Fortis Inc.

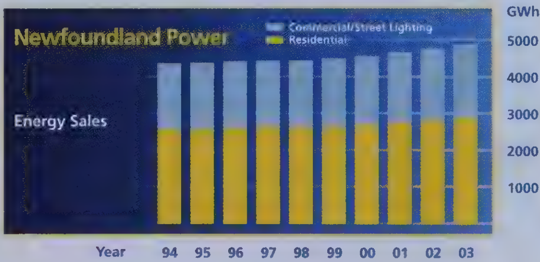
Newfoundland Power

For the third consecutive year, Newfoundland Power achieved a Customer Satisfaction Rating of at least 90 per cent.

The Company invested approximately $64 million in its electricity system in 2003 to improve reliability to customers and control capital expenditures over the long term. Underperforming distribution feeders were refurbished and transmission lines were upgraded to improve the integrity of the electricity system. Aged and obsolete reclosers and relays were replaced with new multi-function digital units remotely controlled from the System Control Centre. Major initiatives completed included the installation of additional transformers at Chamberlains and Virginia Waters substations, the rebuild of a 38-kilometre section of the transmission line from Grand Beach to Salt Pond on the Burin Peninsula, the reconstruction of the penstock at the Lockston Hydroelectric Plant and the upgrade to a 10.5-kilometre section of the feeder serving customers in the Random Island area. In addition to making capital investments to improve the reliability of the electricity system, Newfoundland Power continues to work closely with Newfoundland Hydro to address issues of loss of supply and the number of service interruptions impacting customers.

For the third consecutive year, the Company earned a Customer Satisfaction Rating of at least 90 per cent. Whether it's in person, over the phone or through its website, Newfoundland Power strives to ensure every connection with customers is pleasant, efficient and productive. Technology is used strategically to improve programs that meet the diverse and changing needs of customers. In 2003, *eBills* were introduced, taking the convenience of preauthorized payments and online banking to the next level. The reduction in printing and mailing also helps control operating costs. The corporate website was redesigned to provide customers with maximum convenience in conducting business online, anytime and anywhere. New electronic services were introduced to serve customers more efficiently. Materials management functions were moved online to better serve vendors while creating efficiencies and productivity in the administration of the purchasing processes. Automated-reading meters continued to be strategically installed in difficult to access locations to improve customer service and employee safety. Personalized service and programs were offered to help customers improve their energy efficiency and usage.

Safety is Newfoundland Power's number one priority. Sustained teamwork and a commitment to safety awareness and training have produced positive results.



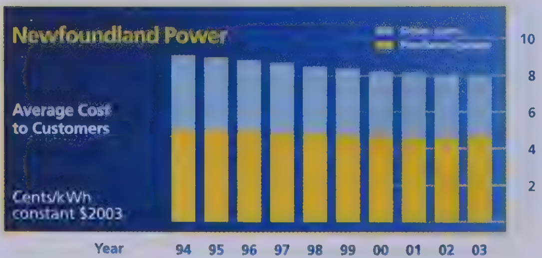
Operations

Newfoundland Power

Providing electricity to customers 24 hours a day, 365 days a year requires a strong emphasis on safety and productivity.

In 2003, the Company achieved a 9.3 per cent decrease in the frequency of medical-aid and lost-time injuries to employees. Bonavista Area employees achieved a significant milestone, working 3 consecutive years without a single lost-time injury. Employees of Eastern Region, Materials Management and Electrical Maintenance worked an entire year without a lost-time injury. Newfoundland Power's goal is to see employees, and those who perform work on its behalf, return home safely to their families each day.

Respect for the environment is inherent in the Company's daily operations. Newfoundland Power remains unwavering in its commitment to conduct business in the most environmentally responsible manner possible. The Company was proud to receive an Award for Excellence in Environmental Education from the Canadian Network for Environmental Education and Communication in recognition of the positive impact of its employee-driven Environmental Commitment Program.



Newfoundland Power is committed to ensuring its 601 employees have the skills and resources to deliver quality service for customers. A Business Acumen Program was implemented in 2003 to better equip leaders through enhanced knowledge of the Company's business, the electric utility industry and the global business environment. Employees play a key role in generating and sharing new ideas that enable them to do their jobs better and to improve the efficiency of operations. Newfoundland Power was honoured to receive the first-ever Employer of Distinction Award from the Newfoundland and Labrador Employers' Council in recognition of its corporate priority to ensure employees are valued and given opportunities to achieve their personal goals.

William J. Daley, President and Chief Executive Officer, FortisOntario Inc.

FortisOntario

In 2003, Fortis' utility investments in Ontario were reorganized to operate under FortisOntario, a wholly owned subsidiary of Fortis. FortisOntario includes the operations of Canadian Niagara Power, Cornwall Electric and Granite Power. In total, its distribution operations serve approximately 51,100 customers in the Fort Erie, Port Colborne, Cornwall and Gananoque areas of Ontario and meet a peak demand of 256 MW. FortisOntario owns and operates the 75-MW Rankine Generating Station at Niagara Falls, the 5-MW District Heating cogeneration plant in Cornwall and 6 small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW. The Company owns international transmission facilities at Fort Erie, Ontario. FortisOntario also owns a 10 per cent strategic interest in Westario Power Holdings Inc. and in Rideau St. Lawrence Holdings Inc., 2 regional electric distribution companies formed in 2000 that together serve over 27,000 customers.

FortisOntario made another significant step in growing its utility business in Ontario, acquiring the operating subsidiaries of Granite Power in the second quarter for $8.8 million. Granite Power distributes electricity to approximately 3,800 customers in the Gananoque region and generates electricity from 6 hydroelectric generating stations with a combined capacity of 8 MW, including the 2-MW Rideau Falls generating station. The acquisition is the first acquisition of small hydroelectric plants in Ontario since Fortis acquired its initial interest in Canadian Niagara Power in 1996.

Safety is at the forefront of all Company operations.

Operations

FortisOntario

Washburn hydroelectric generating station, Rideau Canal.

A key focus for management in 2003 was the successful integration of the operations of Granite Power and Cornwall Electric within FortisOntario. By integrating customer billing, financial and human resource systems, FortisOntario achieved operational efficiencies that will result in annual savings of $1.4 million. By leveraging technology with human resource planning initiatives, including an early retirement program and redeployment of labour, these efficiencies were achieved without any layoffs. Consistent with the Company's policy of providing a local presence for customers, service centres remain operational in Cornwall and Gananoque.

Large industrial and commercial customers were provided access to a new, user-friendly, Internet-based system providing real-time data on hourly consumption and demand and the resulting cost of power. The service enables these customers to research opportunities to modify their electricity consumption and thereby reduce their energy costs. In addition to helping control customers' electricity costs, the service helps reduce the demands on the provincial electricity system.

The following table provides an overview of the operating companies of FortisOntario.

FortisOntario

Distribution[1]

Company	Service Territory	Customers (#)	Peak Demand (MW)	Employees (#)
Canadian Niagara Power	Fort Erie	15,100	58	58
Canadian Niagara Power	Port Colborne[2]	9,300	38	8
Cornwall Electric	Cornwall	22,900	143	50
Granite Power	Gananoque	3,800	17	11
Total		**51,100**	**256**	**146**[3]

Generation

Facility	Location	Capacity (MW)	Generation Type
Rankine	Niagara Falls	74.6	Hydro
Granite Power[4]	Rideau Canal, Gananoque, Ottawa	7.7	Hydro
Cornwall District Heating	Cornwall	5.2	Gas/Cogeneration
Total		**87.5**	

(1) FortisOntario owns a 10 per cent interest in Westario Power and in Rideau St. Lawrence Power.
(2) FortisOntario signed a 10-year operating lease agreement with the City of Port Colborne in 2002
(3) Includes 19 employees in Corporate and Generation Operations
(4) Includes 6 hydroelectric plants ranging in capacity from 0.1 MW to 2.4 MW

FortisOntario

FortisOntario invested approximately $11 million in capital initiatives to ensure continuing quality service in the safe, reliable distribution of electricity to customers. A $0.4 million cable connection was installed underneath the Welland Canal to enhance reliable delivery of electricity to all parts of Port Colborne. A new $0.5 million Supervisory Control and Data Acquisition Control Centre was built in Fort Erie to improve monitoring of the distribution system in that service territory and Port Colborne and to further improve response times for service restoration. Line crews of Cornwall Electric provided assistance to Hydro-Québec by supporting the installation of a new higher-voltage line along its Cedars Rapids transmission corridor to improve reliability by facilitating the two-way flow of power. In cooperation with the local municipal government in Fort Erie, a $0.5 million initiative was undertaken to move distribution lines underground to improve the aesthetics in the key tourism area at the conjunction of Lake Erie and the Niagara River.

The Company's overall customer satisfaction rating of 79 per cent in 2003 reflected the province-wide concerns with the restructuring of the electric industry in Ontario and the carryover effects of the volatility of electricity prices experienced by customers in 2002. Customers rated reliability and safe delivery of electricity and quality of customer service much higher at 93 per cent and 88 per cent, respectively.

FortisOntario's customers, like so many others, were impacted by the massive power outage experienced in Ontario and the northeastern United States on August 14, 2003. Cornwall Electric's transmission system is connected to a Quebec-based transmission system which interconnects with New York. As a result of the diligent efforts of Hydro-Québec and Cornwall Electric employees, Cornwall Electric customers had their power fully restored within 2 hours with no further special conservation

(1) Sales increased as a result of the acquisition of Cornwall Electric in October 2002 and the 10-year lease of Port Colborne Hydro.

efforts required. By isolating FortisOntario's small hydroelectric generating facilities in eastern Ontario from the Ontario power grid, service was restored to the downtown core of Gananoque within 3 hours. Less than 30 per cent of customers in Fort Erie and Port Colborne were affected by the massive blackout and service was restored in less than 6 hours. The Company worked closely with the local municipal governments to encourage special conservation efforts during the week following the blackout.

FortisOntario has a history of cooperative labour relations. Strong employee relations are critical to meeting the ongoing demands of and changes in the Ontario electric industry. To further strengthen a positive and productive workplace environment, management engaged in a series of leadership development training sessions. Two separate 3-year collective agreements covering 59 employees were also signed with IBEW Local 636 in the Niagara Region and in Gananoque.

The Company continues to seek opportunities to further expand its distribution business in Ontario by acquiring municipal electric utilities. However, these efforts have been impeded as a result of legislation introduced by the Government of Ontario which reestablished, for 2 years, a 33 per cent transfer tax for purchases of other utilities by the private sector. Hydro One and other municipal electric utilities are exempt from this legislation. FortisOntario plans to continue to petition the Government of Ontario for a more level playing field with respect to the future consolidation of the electric distribution sector in Ontario.

Operations

Maritime Electric

Maritime Electric is the principal electric utility on Prince Edward Island. The Company serves approximately 69,000 customers, or 90 per cent of electricity consumers on the Island, and meets a peak demand of 204 MW. Maritime Electric owns and operates a fully integrated system providing for the generation, transmission and distribution of electricity in the Province. The system is connected to the mainland power grid via 2 submarine cables under the Northumberland Strait. The Company maintains on-Island generating facilities at Charlottetown and Borden-Carleton with a combined total capacity of 100 MW.

Most of the energy supplied to customers is purchased from New Brunswick Power ("NB Power") and Emera Inc. ("Emera") through several energy purchase and entitlement agreements. In late 2003, the Company negotiated a new energy purchase agreement with NB Power which provides for an increase in firm energy purchases. The new agreement, which will also replace the agreement with Emera when it expires on December 31, 2004, will further reduce issues related to the security of supply and should result in increased price stability.

Reliability of service to customers is a key priority of Maritime Electric. The Company invested approximately $17 million in continued improvements to its electricity system in 2003.

Maritime Electric serves approximately 69,000 customers

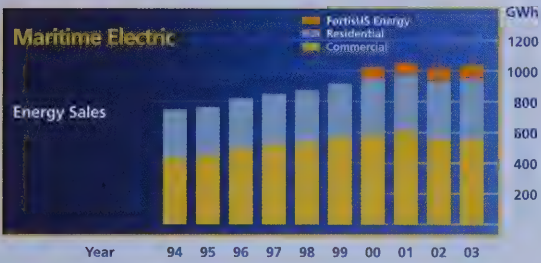
James A. Lea, President and Chief Executive Officer (left) and J. William Geldert, Vice President, Finance and Chief Financial Officer (right), Maritime Electric Company, Limited

A significant initiative was its $2 million share of the $12 million upgrade to NB Power's Memramcook substation to improve reliability of energy supply from the mainland.

Maritime Electric continues to assess opportunities to diversify its energy supply sources to ensure continued reliability of service to customers and to control energy costs. The Company recognizes the benefits of gas-fired electricity generation to reduce reliance on imported energy, which puts increased upward pressure on energy costs. Maritime Electric continues to work with the Government of Prince Edward Island in its efforts to secure natural gas for the Island.

To ensure increased capacity to meet growth in energy demand, the Company announced plans in June for the construction of a 50-MW gas turbine on Prince Edward Island.

Maritime Electric



This $35 million project will address issues associated with the loading of the submarine cables between Prince Edward Island and the mainland power grid. The unit, which will be used primarily for peaking purposes, will have the capability of operating on light oil or natural gas. The project is subject to regulatory approval and is scheduled for completion in late 2005.

Maritime Electric is proud of its environmental stewardship record. The Company works closely with all levels of Government to ensure the highest environmental standards are met in all its operations and to explore opportunities to partner on environmental initiatives. The Company continues to support the Government of Prince Edward Island's investment in wind-powered electricity generation technology through the purchase of energy from the North Cape Site. This "green" energy further diversifies Maritime Electric's energy supply sources and helps reduce its reliance on fossil fuels. The environmentally friendly "green" energy accounted for approximately 2 per cent of the Company's energy supply in 2003.

Technology improvements were adopted that enable updates to customer accounts to be made on a real-time basis for payments made at remote locations. Initiatives were launched to provide customers with more flexible payment options. Approximately 15 per cent of customers now use the convenience of preauthorized payment. In addition to helping control costs, the use of this technology enables employees to focus on other responsibilities, such as call centre duties, and further enhances service to customers.

In 2003, a new customer outage management system was implemented which integrates customer care and outage response functions. The system provides more timely and accurate data to field personnel, improving power restoration efforts. The technology proved extremely helpful during the power restoration process following Hurricane Juan in September, which impacted more than 52,000 customers. The Company received very positive public and media support for its restoration work in the aftermath of the Class I hurricane. Most customers had their service fully restored within 2 days following the storm. Service was fully restored to all customers within 4.5 days. The successes achieved in meeting the challenges of Hurricane Juan and other weather-related conditions, including a severe ice storm and lightning storm, reflect Maritime Electric's continued investments in employee development and system infrastructure.

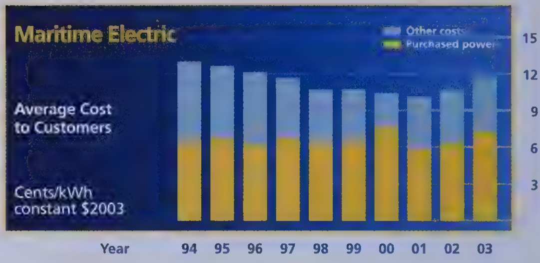
Employees work to restore power to customers impacted by Hurricane Juan.

Maritime Electric

For the tenth consecutive year, the Company's system reliability exceeded the benchmark of 5.5 hours of interrupted service as established by the *Maritime Electric Company Limited Regulation Act*. Customers experienced, on average, 1.7 hours of interrupted service this year.

Maritime Electric's team of 179 employees is committed to providing customers with quality service. The Company received a customer satisfaction rating of 71 per cent in 2003, 11 per cent lower than in 2002. The implementation of a 13.3 per cent rate increase on April 1, 2003, in accordance with the *Maritime Electric Company Limited Regulation Act*, was the primary reason for the decrease.

Building on its existing synergies with Aliant Telecom Inc. ("Aliant"), Maritime Electric negotiated a joint-use pole ownership arrangement to perform certain services for Aliant. The initiative will improve service to customers by reducing the number of site visits required to complete various installation work.



FortisUS Energy, a wholly owned subsidiary of Maritime Electric, provides a vehicle for exploring acquisition opportunities in the United States, particularly the northeastern area. The Company owns and operates 4 hydroelectric generating stations in upper New York State with a total combined capacity of approximately 23 MW: Moose River, Philadelphia, Dolgeville and Diana. The average annual energy output of these modern facilities of 85 gigawatt hours ("GWh") is sold at the wholesale level through a series of renewable contracts. Total production for FortisUS Energy was 86 GWh in 2003 compared to 82 GWh in 2002. In 2003, all 4 plants successfully passed Federal Energy Regulatory Commission inspections.

FortisUS Energy owns and operates 4 hydroelectric generating stations in upper New York State with a combined capacity of 23 MW.

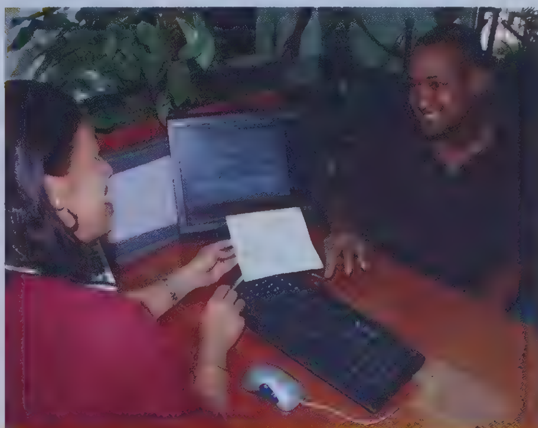
Lynn R. Young, President and Chief Executive Officer (left) and Rene J. Blanco, Vice President, Finance and Chief Financial Officer (right), Belize Electricity Limited

Belize Electricity

Belize Electricity is the primary distributor of electricity in Belize, Central America. Serving more than 63,000 customers, the Company meets a peak demand of 57 MW from multiple sources of energy supply including power purchases from BECOL, from Comission Federal de Electricidad, the Mexican state-owned power company, and from its own diesel-fired generation. All major load centres are connected to the country's national electricity system, which is interconnected with the Mexican electricity grid, allowing the Company to optimize its power supply options. Fortis holds a 68 per cent interest in Belize Electricity.

The Power III Project, a joint initiative with the Government of Belize to extend first-time electricity service to many rural areas in Belize, continued in 2003. Under this initiative, 25 miles of distribution lines and 184 streetlights were installed this year, making electricity supply available to more than 18,000 new housing units. Partly as a result of the ongoing Power III Project, the Company's customer base grew approximately 5.5 per cent in 2003.

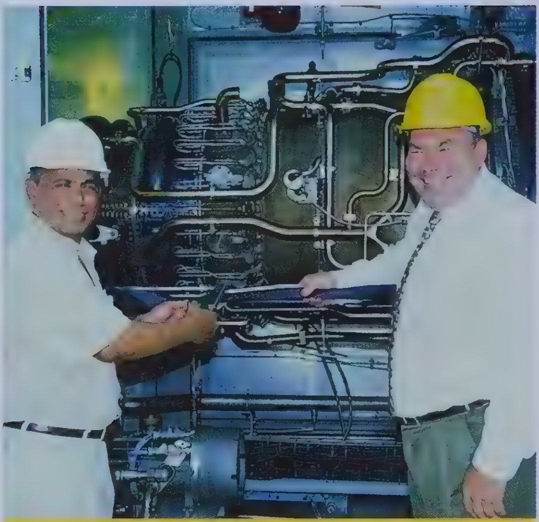
Significant progress continued to be made on the Power IV Project, an initiative to connect southern Belize to the national grid to improve service reliability and to reduce energy costs. Approximately 42 miles of 69-kilovolt ("kV"), transmission lines were installed to serve the fast-growing tourist destination of Placencia. This progress will also enable the decommissioning of one of Belize Electricity's 3 remaining isolated diesel generating plants, contributing to a cleaner environment by reducing emissions and risks from oil spills. Construction of most of the transmission line to Punta Gorda Town, the southernmost municipality in Belize, was completed this year.



A focus on improving service to customers was rewarded with an increase in Belize Electricity's Customer Satisfaction Rating to 85 per cent.

Operations

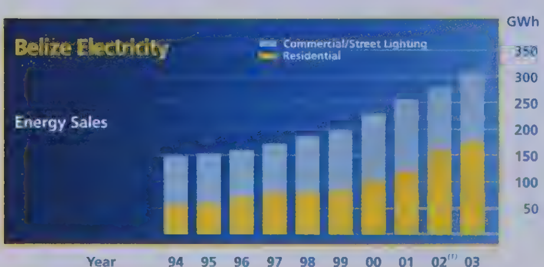
Belize Electricity



Hon. John Briceno, Deputy Prime Minister, Government of Belize and H. Stanley Marshall, President and CEO, Fortis Inc. at inauguration of the 22-MW Westlake gas turbine in Belize.

The Power V Project was launched in 2003, a 3-year initiative to enhance the reliability of the Company's electricity system through an extensive series of feeder upgrades and the construction of new substations. Belize Electricity embarked on a comprehensive thermoscanning program to detect and repair potential weaknesses in the distribution system, thereby preventing power failures.

The Company commissioned a 22-MW gas turbine unit at its Westlake Generating Plant and Substation as part of its plan to meet growing energy demand as well as to enhance and diversify in-country energy supply. The US$14 million capital project improves reliability of supply by providing backup and peaking capacity and will help control energy costs, as power from the gas turbine replaces expensive peak power imported from Mexico.



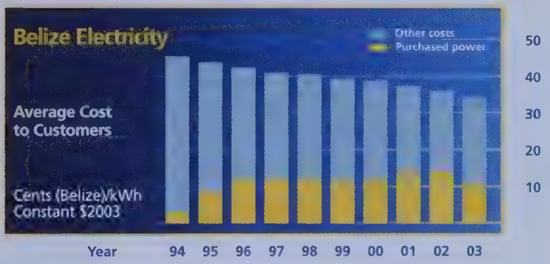
(1) Commercial sales decreased as a result of a reclassification of some small commercial customers to residential customers

To strengthen energy supply for future demand, Belize Electricity signed an agreement with Hydro Maya Limited, an independent power producer, for the supply of 2.8 MW of hydroelectric power by January 2006. The Company continues to identify additional sources of energy supply needed to meet future growth in demand.

The focus on improving service to customers was rewarded with an increase in Belize Electricity's Customer Satisfaction Rating to more than 85 per cent from approximately 82 per cent last year. An Internet billing system was implemented in 2003 to provide customers with enhanced service. The system enables customers to conveniently access billing information and request various services online. Customers now have the option of requesting electricity service online, by telephone or office visit, whichever is most convenient for them. Customers expressed their satisfaction with the strategic location of Customer Service Agents throughout the country to enhance accessibility to Company representatives. The building at the decommissioned power station in San Ignacio was refurbished as a new Customer Service Centre for the Cayo District, improving service to customers in that region.

During the year, Belize Electricity implemented an Environmental Management Plan with the goal of making its generation facilities ISO 14001 compliant by 2006. A number of preventative and mitigative measures, including an oil

management system and enhancements to the spill management systems at Belmopan and Belize City, were introduced as part of the Company's ongoing initiatives to make its operations fully compliant with internationally acceptable environmental standards.



A commitment to safety is integral to the operations of Belize Electricity. As part of its ongoing Safety Program, the first-ever corporate Health and Safety Week, an initiative designed to enhance safety awareness practices among employees and the public, was held in 2003. Defensive driver training courses were held for all employees using Company vehicles as part of the corporate safety initiatives.

People Strategy was launched in 2003, a human resource initiative designed to deliver strategic training to employees to better align workforce and corporate objectives. Ongoing training and development initiatives for Belize Electricity's 242 employees are integral to Belize Electricity's commitment to enhance customer service and improve productivity. Management employees participated in leadership development and performance management training. Several line crew employees were afforded the opportunity to spend time with colleagues at Newfoundland Power, receiving valuable hands-on technical training. Belize Electricity also benefited from the technical expertise of colleagues at Newfoundland Power, who provided on-site operational training and support for a number of operations including thermoscan responsibilities and who assisted with the completion of an extensive safety audit this year. Management and the Belize Energy Workers Union signed a Memorandum of Agreement for the implementation of a 4-year Line Apprenticeship Program. Belize Electricity is committed to being proactive in its strategic initiatives to ensure employees have the knowledge and skills needed to provide customers with quality service.

A commitment to employee and public safety is integral to Belize Electricity's daily operations.

Operations

BECOL

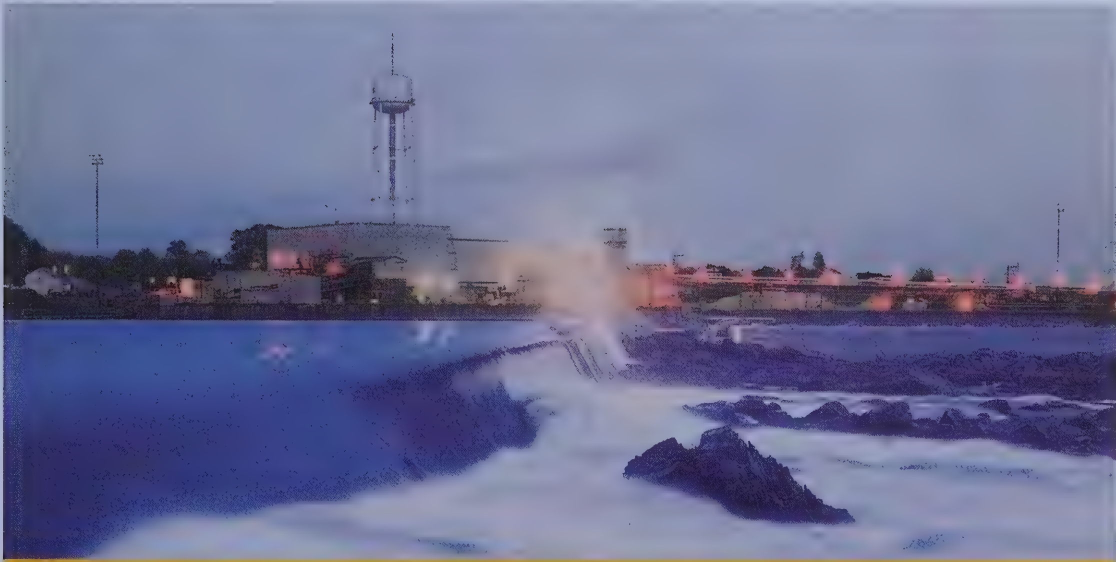
BECOL owns and operates the 25-MW Mollejon hydroelectric facility, located on the Macal River, the only commercial hydroelectric generating facility in Belize. The Company sells its entire output to Belize Electricity under a 50-year Power Purchase Agreement. Fortis acquired a 95 per cent interest in BECOL in January 2001.

Construction on the Chalillo Project began in May 2003, following approval by the Public Utilities Commission. The US$30 million development is an upstream storage and hydroelectric generating facility which will increase average annual energy production from the Macal River to 170 GWh from 80 GWh. The development will increase reliability of service through more consistent production of hydroelectricity and will reduce reliance on fossil fuels, thereby helping to stabilize electricity costs. It will also increase the self-sufficiency of Belize in meeting its growing energy demands.

The Chalillo Project is scheduled for completion mid-2005, a year later than originally planned, primarily as a result of a series of legal challenges by an environmental group opposed to construction of the hydroelectric facility. In January 2003, the Belize Alliance for Conservation Non-Government Organization ("BACONGO") filed a notice of appeal with the Court of Appeal of Belize against a December 2002 ruling of the Supreme Court of Belize, which confirmed all approvals for the Chalillo Project were in order. Following a ruling by the Court of Appeal of Belize in March upholding the decision of the Supreme Court of Belize, BACONGO appealed to the Privy Council in London, the highest court in the Commonwealth. In August, the Judicial Committee of the Privy Council denied a request for an injunction to stop the Chalillo Project. In January 2004, the Judicial Committee of the Privy Council dismissed BACONGO's appeal. The majority of the Judicial Committee found that, in all material respects, proper procedure had been followed and concluded the appeal should be dismissed.

Adherence to the highest standards of environmental practices continued to be a top priority for BECOL throughout 2003. The Company's operations are now fully compliant with ISO 14001 international standards and annual environmental audits are conducted to confirm that all environmental targets are achieved. Environmental audits are conducted at the construction site for the Chalillo Project to ensure conformity with the Environmental Compliance Plan signed with the Government of Belize's Department of Environment ("DOE"). The DOE has registered its approval and satisfaction with the environmental management of the Chalillo Project.

The Chalillo Project will more than double average annual energy production from the Macal River to 170 GWh.



The Exploits Partnership project is a redevelopment of Abitibi-Consolidated's hydroelectric facilities in central Newfoundland.

Central Newfoundland Energy (Exploits Partnership)

Central Newfoundland Energy, a non-regulated, wholly owned subsidiary of Fortis, holds a 51 per cent interest in the Exploits Partnership with Abitibi-Consolidated. The Exploits Partnership was established in 2001 to develop additional capacity at Abitibi-Consolidated's hydroelectric generating plant at Grand Falls-Windsor and to redevelop the forestry company's 50-hertz hydroelectric generating plant at Bishop's Falls, in central Newfoundland, to increase annual energy production by approximately 140 GWh to 600 GWh.

The Exploits Partnership project was completed in November 2003. Safety and environment were key elements in project planning and were closely monitored throughout the construction process. Abitibi-Consolidated continues to use the historical annual generation while the additional energy produced as a result of the project is sold to Newfoundland Hydro under a 25-year Power Purchase Agreement.

The redevelopment of the nearly 100-year-old hydroelectric generating plant at Bishop's Falls was completed in March 2003. The redeveloped facility has a capacity of approximately 20 MW and now provides power at 60 hertz. Six of the facility's 9 turbines were replaced with modern equipment and their generators were rewound for the additional capacity. Three other units were refurbished to operate at the higher frequency and modern plant protection and controls were installed for the entire facility. Two substations were constructed and the transmission line upgraded from 46 kV to 66 kV.

Construction of the new 30-MW power plant at Grand Falls-Windsor, known as the Beeton Plant, was completed and went into commercial operation in November 2003. Project work included the construction of a penstock, powerhouse and tailrace channel. A 30-MW vertical turbine generator was installed along with associated plant protection and controls.

Operations

Caribbean Utilities

Caribbean Utilities serves more than 20,000 customers on Grand Cayman.

Caribbean Utilities generates, transmits and distributes electricity to more than 20,000 customers on Grand Cayman, Cayman Islands. The Company is one of the most reliable and efficient electric utilities in the region. The utility's electricity system is comprised of 18 generating units (16 diesel, 1 gas turbine and 1 steam turbine) with a combined capacity of 123 MW and meets a peak load of 79 MW. Caribbean Utilities operates under a 25-year exclusive licence, renewable in 2011, with the Government of the Cayman Islands. The Company is entitled to earn a 15 per cent rate of return on rate base under the terms of the licence. In 2003, Caribbean Utilities and the Government of the Cayman Islands commenced discussions concerning changes to the regulatory regime specified in its licence and an extension of the licence beyond 2011.

Fortis increased its investment in Caribbean Utilities to approximately 38 per cent in 2003 from 22 per cent in 2002. Fortis has a strong, successful relationship with management of Caribbean Utilities spanning more than a decade. This investment is expected to provide further value to both companies and to their shareholders.

The Class A Ordinary Shares of Caribbean Utilities are listed in U.S. funds on the Toronto Stock Exchange under the symbol CUP.U.

John C. Walker, President and Chief Executive Officer (left) and Neal J. Jackman, Vice President, Finance and Chief Financial Officer (right), Fortis Properties Corporation

Fortis Properties

Fortis Properties owns and operates hotels in Atlantic Canada and Ontario and commercial real estate in Atlantic Canada. Its holdings include 12 hotels with over 2,100 rooms and 2.7 million square feet of commercial real estate. The Company, a wholly owned subsidiary of Fortis, is the Corporation's vehicle for non-utility diversification and growth.

Fortis Properties' competitive advantage lies with its reputation for service excellence combined with high-quality, well-situated properties.

The Company achieved a significant milestone in 2003 with its first acquisition of properties outside Atlantic Canada. In October, Fortis Properties acquired 4 Holiday Inn-branded hotels in Ontario for $43.2 million. Located in Sarnia, Cambridge, Kitchener and Peterborough, the properties enhance the Company's geographic diversity and provide a strategic platform for future growth. The full-service hotels are well positioned within their respective markets and, over the years, have been acknowledged by the Holiday Inn brand, as well as tourism and local service organizations, for their consistently high standards of service delivery. With a combined total of 630 rooms, these hotels solidly complement the customer and operational profiles of Fortis Properties' hotels throughout Atlantic Canada. A comprehensive capital improvement plan has been initiated to maintain the quality and market position of the hotels.

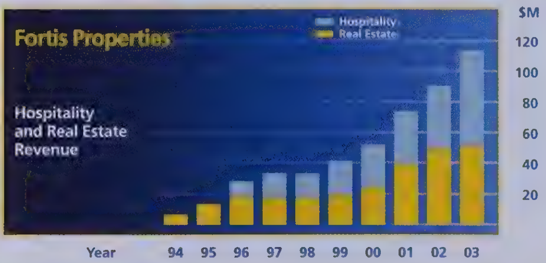
The Hospitality Division, one of the largest Atlantic Canada-based owners/operators, achieved improvements in both occupancy levels and room rates, despite a number of significant economic and world events which challenged the hospitality industry in 2003. Average occupancy rose to 64.6 per cent from 62.2 per cent in 2002 and the average daily rate increased to $108.32, up 8.7 per cent over the previous year. Revenue per available room ("REVPAR") increased 13 per cent to $69.98, the eighth consecutive year REVPAR has risen. This growth exceeds the overall national market decrease in REVPAR of 8.8 per cent year over year.

The Real Estate Division continued to perform well, achieving an occupancy rate of 94.5 per cent, 8.1 per cent higher than the national average occupancy rate of 86.4 per cent. High-quality regional and national tenants on long-term leases, combined with a commitment to customer service and a focus on cost control and asset quality, contributed to the Real Estate Division's continuing strong performance.

Fortis Properties

Fortis Properties continued to be proactive in addressing market challenges by negotiating early renewals with existing tenants, where possible, and attracting new tenants. This strategy significantly improves the opportunity for tenant retention, stabilizing future rental income. In Nova Scotia, Maritime Centre successfully negotiated an early renewal, securing 77,000 square feet for a further 5 years, thereby continuing its trend of near-full occupancy. In New Brunswick, Brunswick Square increased its occupancy rate to 95.7 per cent from 90.9 per cent, securing 22,000 square feet of office space.

The Company benefited from favourable short- and long-term interest rates in 2003 and was successful in securing $65 million in external financing to fund ongoing property investment as well as recent acquisitions. The long-term debt was raised at favourable rates, substantially mitigating refinancing risks as there are no significant financings maturing until 2010.

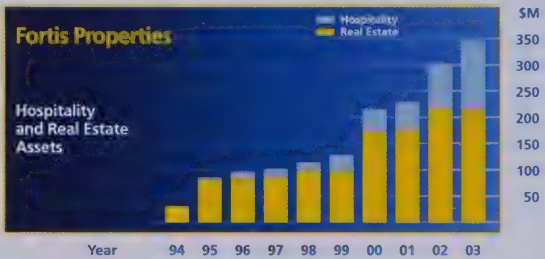


Customer satisfaction is integral to the success of Fortis Properties' business strategy. Whether efforts focus on providing tenants with highly functional office space or ensuring guests enjoy comfortable accommodation at hotels, continued customer satisfaction is the cornerstone of the Company's long-term success. Fortis Properties strives to meet and exceed customer expectations through effective communications and timely implementation of improvements. The Company was pleased its commitment to quality was recognized in the marketplace.

Continued customer satisfaction is the cornerstone of Fortis Properties' long-term success.

Holiday Inn St. John's was bestowed a Quality Excellence Award by Hospitality Newfoundland and Labrador. The Four Points by Sheraton Halifax received a Best in Brand Award for high performance in overall guest satisfaction from the Starwood Hotel brand. In its Real Estate Division, the Customer Satisfaction Index increased to 95.7 per cent, up 2.9 per cent over 2002, reflecting a continued focus on service improvement.

Within the Hospitality Division, a number of capital initiatives were completed to meet customers' needs and expectations. At the Delta St. John's, the newly introduced Mickey Quinn's Pub and Quinn's Plate Restaurant offer greater access to casual



Fortis Properties

Holiday Inn Sarnia is 1 of 4 hotels Fortis Properties acquired in Ontario.

dining in a relaxed downtown atmosphere. The recently renovated Crown and Moose Pub at the Holiday Inn Corner Brook provides an updated appearance and pub-style menu selections. At the Delta Brunswick, a selection of rooms was upgraded with additional guest amenities for those customers desiring enhanced levels of service and accommodation.

Technology was leveraged to achieve productivity gains and to enhance customer service. The Company's maintenance software program, successfully used in real estate operations, was introduced at its hotels. This wireless software, known corporately as 45-FIXIT, is a preventative maintenance tool which minimizes service concerns for hotel guests and tenants. Responding to rapidly growing guest preference, high-speed Internet access was introduced at an additional 8 hotels. Technology improvements were made at 4 hotels to provide guests with the convenience of self-serve printing capabilities. The Real Estate Division implemented an automated parking system at one of its properties in St. John's, increasing productivity and improving financial returns in that business unit. A uniform card access system was installed at several other properties in St. John's, providing added convenience for customers accessing these facilities while enhancing security.

Fortis Properties' team of 1,300 employees demonstrates a strong commitment to performance and service throughout a broad scope of operations. Ongoing training and career development opportunities, including customer service, leadership and technology training, are a priority as the Company positions its employees as the best service providers in the business.

REAL ESTATE	Location	Gross Lease Area (sq. ft.)
Fort William Building	St. John's, NL	188,170
Cabot Place I	St. John's, NL	133,327
TD Place	St. John's, NL	93,019
Fortis Building	St. John's, NL	82,325
Multiple Office	St. John's, NL	69,613
Millbrook Mall	Corner Brook, NL	121,936
Fraser Mall	Gander, NL	101,591
Marystown Mall	Marystown, NL	86,891
Fortis Tower	Corner Brook, NL	70,245
Viking Mall	St. Anthony, NL	64,872
Maritime Centre	Halifax, NS	560,197
Brunswick Square	Saint John, NB	511,032
Kings Place	Fredericton, NB	290,661
Blue Cross Centre	Moncton, NB	265,661

HOTELS	Location	Rooms (#)
Delta St. John's	St. John's, NL	276
Holiday Inn St. John's	St. John's, NL	250
Mount Peyton	Grand Falls-Windsor, NL	150
Holiday Inn Corner Brook	Corner Brook, NL	101
Four Points by Sheraton	Halifax, NS	177
Days Inn Sydney	Sydney, NS	165
Delta Sydney	Sydney, NS	152
Delta Brunswick	Saint John, NB	255
Holiday Inn Kitchener	Kitchener, ON	183
Holiday Inn Peterborough	Peterborough, ON	153
Holiday Inn Sarnia	Point Edward, ON	151
Holiday Inn Cambridge	Cambridge, ON	143

Community

Fortis and our employees play leadership roles in the communities we serve.

This year marked the third of our 3-year commitment as First Regional Sponsor in Atlantic Canada of the *CIBC Run for the Cure*. In partnership with Maritime Electric and Fortis Properties, Fortis has contributed $75,000 to support breast cancer research, education, early diagnosis and treatment. Our employees and families have embraced the challenge, raising an additional $60,000 in support of this significant cause. Congratulations to our Maritime Electric team for receiving the *Corporate Spirit Award* 3 years running for the corporate team raising the most donations on Prince Edward Island in support of the Run. We're proud to say we're staying on board as a Regional Sponsor in Atlantic Canada of the Run for another 3 years.

Newfoundland Power's *Power of Life Project* is having a real impact on the fight against cancer in Newfoundland and Labrador. Together with customers, employees and the Government of Newfoundland and Labrador, the Company helped contribute to the unveiling of the Province's first CT simulator in 2003. The $600,000 technology is used to provide leading-edge radiation therapy to cancer patients.

FortisOntario is a proud corporate sponsor of Canal Days®, a unique annual festival in Port Colborne celebrating the city's marine heritage and its ties to the Welland Canal. The festival hosts Tall Ships, fireboats and historical vessels from around the world and was recently chosen as one of the "2004 Top 50 Festivals in Ontario."

Belize Electricity is actively involved in helping educate the youth of Belize. Through the awarding of several scholarships to students at the University of Belize, the Company is helping contribute towards the growth and development of the country's future leaders.

A sincere thank you to all Fortis employees for wholeheartedly supporting our numerous community partnerships with team spirit, hard work and commitment.

Management Discussion and Analysis

The following material should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in the Fortis Inc. 2003 Annual Report. The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles.

Fortis Inc. ("Fortis" or the "Corporation") includes forward-looking statements in this material. By their very nature, forward-looking statements are based on underlying assumptions and are subject to inherent risks and uncertainties surrounding future expectations generally. Such events include, but are not limited to, general economic, market and business conditions, regulatory developments, weather and competition. Fortis cautions readers that should certain events or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. For additional information with respect to certain of these risks or factors, reference should be made to the Corporation's continuous disclosure materials filed from time to time with Canadian Securities Regulatory Authorities.

The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Barry V. Perry, Vice President, Finance and Chief Financial Officer, Fortis Inc.

Corporate Overview

Fortis is primarily a diversified electric utility holding company. The Corporation segments its utility operations by franchise area and, depending on regulatory requirements, by the nature of the assets. Fortis also holds investments in commercial real estate and hotel properties, which are treated as a separate segment. The operating segments allow senior management to evaluate the operational performance and to assess the overall contribution of each segment to the Corporation's long-term objectives.

Each operating segment operates as an autonomous unit, assumes profit and loss responsibility and is accountable for its own resource allocation.

Newfoundland Power: Newfoundland Power is the principal distributor of electricity in Newfoundland.

FortisOntario: Fortis' investments in Ontario, referred to as FortisOntario, provide an integrated electric utility service to customers in the Fort Erie, Cornwall, Gananoque and Port Colborne areas of Ontario. FortisOntario is focused on electricity distribution; however, it does own some electric generation assets in Ontario.

FortisOntario, the successor to Canadian Niagara Power Company, Limited and Cornwall District Heating Limited, owns and operates the 75-megawatt ("MW") Rankine Generating Station in Niagara Falls, Ontario and a 5-MW gas-fired cogeneration plant in Cornwall, Ontario and includes the operations of Canadian Niagara Power Inc. ("Canadian Niagara Power"), Cornwall Street Railway, Light and Power Company, Limited ("Cornwall Electric") and the operating subsidiaries of Granite Power Corporation ("Granite Power"). Included in Canadian Niagara Power's accounts is the electricity distribution business of Port Colborne Hydro Inc. ("Port Colborne Hydro") which has been leased from the City of Port Colborne under a 10-year lease agreement entered into in April 2002. Fortis acquired the remaining 50 per cent interest in Canadian Niagara Power Company, Limited, including Canadian Niagara Power, on July 1, 2002, and on October 17, 2002 the Corporation acquired a 100 per cent interest in Cornwall Electric. Fortis' initial 50 per cent interest in Canadian Niagara Power Company, Limited was reported on a proportionate consolidation basis up to July 1, 2002. On April 1, 2003, FortisOntario acquired Granite Power.

Granite Power also includes the operations of the Rideau Falls Limited Partnership ("Rideau Falls"), a 2-MW hydroelectric generating station in Ottawa, which was acquired in the fourth quarter of 2003.

Maritime Electric: Maritime Electric is the principal distributor of electricity on Prince Edward Island. The operations of 4 hydroelectric generating stations in upper New York State, conducted through FortisUS Energy, are also included in this segment.

Belize Electricity: Belize Electricity is the principal distributor of electricity in Belize, Central America.

Belize Electric ("BECOL"): BECOL owns and operates the 25-MW Mollejon hydroelectric facility in Belize. The Company sells all of its electricity output to Belize Electricity.

Caribbean Utilities: Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands. On January 30, 2003, Fortis acquired an additional 15.9 per cent of the outstanding Class A Ordinary Shares of Caribbean Utilities, increasing its holding in the utility to approximately 38 per cent. Subsequently, the Corporation began accounting for this investment on the equity basis of accounting. At December 31, 2002, the Corporation held a 22 per cent interest in the Company and accounted for this investment on the cost basis of accounting, including in its results only dividend income received. The Corporation's interest in Caribbean Utilities has been grouped with the Corporate segment in the Consolidated Financial Statements.

Exploits Partnership: The Exploits River Hydro Partnership ("Exploits Partnership"), a partnership between the Corporation and Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"), was established in 2001 to develop, install and operate additional generating capacity at 2 of Abitibi-Consolidated's hydroelectric plants in central Newfoundland. The Corporation holds a 51 per cent interest in the Exploits Partnership and Abitibi-Consolidated holds the remaining 49 per cent interest. The financial results of the Exploits Partnership have been grouped with the Corporate segment in the Consolidated Financial Statements.

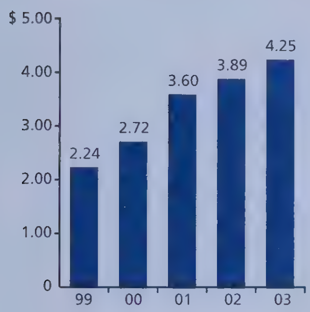
Fortis Properties: Fortis Properties includes the operations of commercial real estate and hotel properties.

Corporate: Corporate includes finance costs associated with corporate debt, preference share dividends and other corporate expenses net of recoveries from subsidiaries, interest and miscellaneous revenues and related income taxes. The Corporation's interest in Caribbean Utilities and the financial results of the Exploits Partnership are also included in this segment.

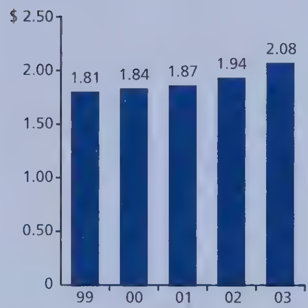
Agreement to Acquire Utilities in Alberta and British Columbia: In September 2003, Fortis entered into agreements to acquire all of the shares of Aquila Networks Canada (Alberta) Ltd. (the "Alberta Utility") and Aquila Networks Canada (British Columbia) Ltd. (the "British Columbia Utility") for approximately $1.4 billion. The closing of the transaction is subject to fulfillment of customary conditions, including certain utility regulatory approvals, and is expected to close in the first half of 2004. On a consolidated basis, the Alberta Utility and British Columbia Utility provide electricity to more than 525,000 customers primarily in southern and central Alberta and southern British Columbia. This acquisition will increase Fortis' investments in regulated assets to approximately $2.7 billion from approximately $1.5 billion.

Financial Highlights

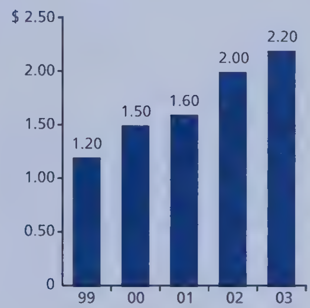
Earnings per common share



Dividends paid per common share



Consolidated assets *(in billions)*



Annual Comparison	**2003**	2002	Growth *(%)*
Earnings applicable to common shares *($ millions)*	**73.6**	63.3	16.3
Earnings per common share *($)*	**4.25**	3.89	9.3
Revenue *($ millions)*	**843.1**	715.5	17.8
Dividends paid per common share *($)*	**2.08**	1.94	7.2
Return on average common shareholders' equity *(%)*	**12.3**	12.2	1.0
Total assets *($ millions)*	**2,211**	1,987	11.3
Cash flow from operations[1] *($ millions)*	**144.1**	128.9	11.8

(1) Before working capital adjustments

Quarterly Comparison	**2003**	2002	Growth *(%)*
Earnings per common share *($)*			
1st Quarter	**1.15**	0.99	16.2
2nd Quarter	**1.20**	1.05	14.3
3rd Quarter	**1.05**	1.05	–
4th Quarter	**0.85**	0.80	6.3
Total earnings per common share *($)*	**4.25**	3.89	9.3

Earnings: Fortis achieved record earnings of $73.6 million in 2003, a 16.3 per cent increase over $63.3 million last year. Earnings per common share were $4.25, a 9.3 per cent increase over $3.89 last year. The higher earnings were primarily the result of increased investments in Ontario in 2002, combined with higher wholesale electricity prices in that market, and the increased investment in Caribbean Utilities in January 2003. The increased earnings were partially offset by decreased earnings at BECOL, due to lower-than-normal rainfall levels, and the effect of the depreciation of the US dollar on foreign investments.

Revenue: Consolidated revenues continued to be strong in 2003, increasing 17.8 per cent to $843.1 million from $715.5 million last year. The acquisitions of the remaining 50 per cent interest in Canadian Niagara Power in July 2002 and a 100 per cent interest in Cornwall Electric in October 2002 were the primary contributors to the increased revenues.

Electricity sales totalled 8,211 gigawatt hours ("GWh") in 2003 compared to 7,271 GWh in 2002. Most of the companies experienced modest increases in distribution and generation sales in 2003 with the exception of BECOL, where lower rainfall levels resulted in a 30.7 per cent reduction in generation sales.

Electricity Sales

(GWh)	2003	2002
Newfoundland Power	**4,882**	4,765
FortisOntario[1]	**1,899**	1,120
Maritime Electric	**1,044**	1,019
Belize Electricity	**308**	279
Exploits Partnership[2]	**17**	–
BECOL	**61**	88
Total	**8,211**	7,271

(1) Energy sales are reported at 100 per cent for Canadian Niagara Power and from the dates of acquisition for Cornwall Electric and Granite Power.

(2) The Exploits Partnership commenced operations in November 2003.

Dividends: Dividends paid per common share increased from $1.94 last year to $2.08 per common share in 2003. Dividends paid per common share have increased annually since the inception of Fortis in 1987. The Corporation's dividend payout ratio was 48.9 per cent in 2003 compared to 49.9 per cent last year. In December 2003, Fortis declared an increase in the regular quarterly dividend to $0.54 from $0.52, payable on March 1, 2004.

Return on Average Common Shareholders' Equity: Return on average common shareholders' equity was 12.3 per cent in 2003, comparable to the previous year.

Cash Flow from Operations: Cash flow from operations, before working capital adjustments, was $144.1 million in 2003 compared to $128.9 million last year. The 2002 acquisitions, as well as improved operating earnings at most subsidiaries, contributed to the improvement in cash from operations.

Asset Growth: Total assets increased 11.3 per cent to $2.2 billion at year-end 2003 from $2.0 billion in assets at year-end 2002. The increase relates to Fortis' continued investment in its electricity systems, increased utility investments in the Caribbean region as well as Fortis Properties' acquisition of 4 hotels in Ontario in October 2003.

Capital Projects and Maintenance Capital Expenditures: In 2003, new capital projects totalled $54.4 million while capital expenditures related to ongoing operations totalled $110.1 million. New capital projects included $17.6 million for completion of the Exploits Partnership, $5.5 million for poles and related infrastructure from Aliant Telecom Inc. ("Aliant Telecom"), $10.1 million for the Chalillo Hydroelectric Project ("Chalillo Project") and $21.2 million for new energy supply at Belize Electricity. The ongoing capital expenditures of $110.1 million mainly related to investment in existing electricity systems to improve reliability and to support customer growth.

Acquisitions: In line with Fortis' strategy to grow profitably while maintaining a risk profile not substantially greater than that associated with the operations of a well-run Canadian utility, Fortis completed several strategic acquisitions in 2003.

Utility

On January 30, 2003, Fortis acquired an additional 3,863,695 Class A Ordinary Shares of Caribbean Utilities for a purchase price of $71 million. This acquisition represented approximately 15.9 per cent of the outstanding Class A Ordinary Shares of Caribbean Utilities and increased Fortis' holding to approximately 38 per cent.

On April 1, 2003, FortisOntario acquired Granite Power for $8.8 million. Granite Power primarily consists of Granite Power Distribution Corporation and Granite Power Generation Corporation. Granite Power distributes electricity to approximately 3,800 customers primarily situated in Gananoque, Ontario and generates electricity from 5 hydroelectric generating stations with a combined capacity of 6 MW. On October 1, 2003, Granite Power Generation purchased the management contract and 14 of 17 partnership units of Rideau Falls, a 2-MW hydroelectric generating station in Ottawa. On December 29, 2003, the remaining 3 partnership units were purchased. The total cumulative purchase price of Rideau Falls was $2.3 million. On December 31, 2003, the partnership units were dissolved and the assets were combined with Granite Power Generation.

On September 15, 2003, Fortis entered into agreements to acquire all of the shares of the Alberta Utility and British Columbia Utility from Aquila, Inc. for aggregate consideration of approximately $1.4 billion. The closing of the transaction is subject to fulfillment of customary conditions, including certain utility regulatory approvals, and is expected to close in the first half of 2004. As of December 31, 2002, the Alberta Utility and British Columbia Utility had an aggregate of $1.3 billion in assets, a regulatory rate base of approximately $943 million and approximately 1,200 employees. The acquisition will give Fortis a significant presence in the electric utility industry in Alberta and British Columbia, which complements its utility operations in other provinces in Canada and in the Caribbean region.

Non-Utility

On October 1, 2003, Fortis Properties acquired 4 hotels in Ontario, located in Cambridge, Kitchener, Sarnia and Peterborough, for an aggregate purchase price of $43.2 million. This acquisition increases Fortis Properties' hotel portfolio by 50 per cent and closely reflects the customer and operational profile of the Company's other hotels located throughout Atlantic Canada. This acquisition is Fortis Properties' first property acquisition outside Atlantic Canada.

Fortis Properties comprises approximately 16 per cent of the consolidated assets and 13 per cent of the consolidated revenue of Fortis. Upon close of the purchase of the Alberta Utility and British Columbia Utility, Fortis Properties' assets are expected to comprise approximately 10 per cent of the consolidated assets of the Corporation.

Financing: Fortis raised in excess of $600 million in the capital markets in 2003. The most significant financing activity related to the issuance of $350 million in Subscription Receipts in October 2003. The proceeds from the Subscription Receipts issue are being held in escrow until the acquisition of Aquila, Inc.'s Canadian assets is completed. Excluding the financing associated with the acquisition of the Alberta Utility and British Columbia Utility, Fortis also issued $125 million in preference shares in June 2003 and approximately $140 million in new long-term debt, including debt at the subsidiary level. The proceeds from the preference share issue were used to repay short-term acquisition financing and to strengthen the Corporation's balance sheet. The proceeds from the long-term debt primarily related to the property acquisition in Ontario, refinancing of property in New Brunswick and repayment of short-term debt at FortisOntario.

Segmented Results of Operations

The segmented results of the Corporation are outlined below.

Revenue and Earnings Contributions

	Revenue		**Earnings**	
($ millions)	**2003**	2002	**2003**	2002
Newfoundland Power	**384.2**	369.6	**29.5**	28.8
FortisOntario	**158.0**	74.5	**16.8**	9.2
Maritime Electric	**100.9**	96.0	**8.2**	6.6
Belize Electricity	**72.5**	77.8	**6.7**	6.9
BECOL	**10.5**	16.6	**(0.5)**	4.6
Fortis Properties	**113.7**	90.4	**11.0**	9.3
Caribbean Utilities	**11.0**	4.9	**10.5**	4.9
Exploits Partnership	**1.3**	–	**–**	–
Corporate	**10.6**	6.3	**(8.6)**	(7.0)
Inter-segment eliminations[1]	**(19.6)**	(20.6)		
Total Revenue	**843.1**	715.5		
Earnings applicable to common shares			**73.6**	63.3

(1) Primarily relates to inter-company energy sales from BECOL to Belize Electricity and interest charges between Fortis and FortisOntario for the acquisition of Cornwall Electric.

Newfoundland Power

Regulation: Newfoundland Power operates under a cost of service regulatory model as prescribed by the Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB"). Under this model, earnings are regulated on the basis of rate of return on rate base. An automatic adjustment formula based on long-term bond rates is utilized to annually determine the permitted rate of return. The formula determines an appropriate rate of return on equity which is then used to determine the resulting return on rate base.

On June 20, 2003, the PUB issued its General Rate Order ("Order") with respect to Newfoundland Power's General Rate Application ("GRA"). The PUB ruled that, for the purpose of rate setting, the capital structure remain at a

maximum of 45 per cent common equity, with a return on equity of 9.75 per cent. This compares to 9.05 per cent allowed return on equity in 2002. The Order also set rates for 2003 and 2004 and established the automatic formula to be utilized to set rates from 2005 through 2007.

Earnings: Earnings were $29.5 million in 2003, an increase of $0.7 million over last year. The increased earnings related to higher electricity sales and a decrease in amortization and income tax expense partially offset by a reduction in electricity rates, higher finance charges and increased regulatory and insurance costs.

Electricity Sales: Electricity sales were 4,882 GWh in 2003, 2.5 per cent higher than last year. Annual residential electricity sales increased 2.3 per cent as a result of a strong housing market, increased personal disposable income and higher oil prices. Annual commercial electricity sales grew 2.7 per cent primarily due to growth in the service sector of the economy and onshore activities related to offshore oil projects.

Revenue: Revenue was $384.2 million in 2003 compared to $369.6 million last year. The increase in revenue was primarily attributable to higher electricity sales and a 3.68 per cent increase in electricity rates, effective September 2002. The rate increase was associated with the flow through of a 6.5 per cent increase in purchased power rates from Newfoundland and Labrador Hydro ("Newfoundland Hydro"). The increase was partially offset by an average 0.15 per cent reduction in rates, effective August 1, 2003, resulting from the Order. The Order included a final determination of rates for 2003 and resulted in a $2.7 million rebate to customers.

Expenses: Newfoundland Power purchases approximately 90 per cent of its energy requirements from Newfoundland Hydro. Energy supply costs were $228.0 million in 2003 compared to $210.8 million last year. This increase was primarily due to both higher electricity sales and the increase in the purchased power rate from Newfoundland Hydro implemented in September 2002. Operating expenses were $51.8 million compared to $50.8 million last year. The increase was largely due to higher insurance costs and higher regulatory costs associated with the GRA. Newfoundland Power continues to focus on controlling costs and has kept electricity rates the lowest in Atlantic Canada.

Pension costs, which are included in operating expenses, remained consistent with last year. Prior to 2003, the fair value method was used to value pension plan assets for the purpose of determining pension expense. In order to reduce the volatility of pension expense caused by changing market conditions, the PUB approved, effective January 1, 2003, the prospective change to the market-related method of valuing pension assets for the purpose of determining pension expense.

Amortization expense was $29.4 million in 2003 compared to $35.4 million last year. The decrease was the result of the Order, which directed Newfoundland Power to reduce amortization rates to reflect longer asset lives and to amortize, over a 3-year period, approximately $17.2 million in excess accumulated amortization.

Finance charges were $30.0 million in 2003 compared to $26.9 million last year. In the fourth quarter of 2002, Newfoundland Power raised $75 million through the issue of 30-year, 7.52 per cent First Mortgage Sinking Fund Bonds. The funds were used to repay lower-rate short-term borrowings, resulting in increased finance charges.

The decrease in income tax expense is primarily associated with the 2 per cent reduction in the Federal corporate tax rate for 2003.

Outlook: While Newfoundland and Labrador experienced 4.5 per cent economic growth in 2003, the Conference Board of Canada projects gross domestic product ("GDP") growth for the Province of 1.9 per cent in 2004. This decrease over 2003 is attributed to expected deceleration of growth in oil production and a decline in construction expenditures. The service sector component of GDP, which is more predictive of Newfoundland Power's electricity sales, is forecast to grow 2.1 per cent in 2004.

An Electricity Policy Review ("EPR") was initiated by the Government of Newfoundland and Labrador in 1998. In 2002, the Provincial Government released its EPR, examining possible structures for the provincial electricity industry. Despite public consultations and the resulting report, no new positions have been adopted. The Company will continue to promote positive regulatory change and industry rationalization. Newfoundland Power views regulatory change as inevitable; however, it is impossible to predict its timing, ultimate structure and effect on the Company.

FortisOntario

Regulation: FortisOntario operates under the *Electricity Act (Ontario)* and the *Ontario Energy Board Act (Ontario)*. On May 1, 2002, as required by the Acts, FortisOntario restructured to separate its generation business from its transmission and distribution businesses. As a result, FortisOntario sells most of its generation, including its Rankine entitlement, to the Ontario Independent Market Operator ("IMO") at market prices. In 2003, Granite Power also restructured its generation and distribution businesses to comply with the Acts.

Canadian Niagara Power's and Granite Power's distribution and transmission assets are regulated on a cost of service basis. Cornwall Electric is exempt from many aspects of these Acts and is also subject to a 35-year Franchise Agreement with the City of Cornwall, dated July 31, 1998. Rates under the Franchise Agreement are determined based on the contracted cost of power and other operating costs and are reset each year based on a formula including adjustments for increases in purchase power costs, inflation, load growth and customer growth.

On November 11, 2002, under *Bill 210*, regulation changes occurred to both the generation and distribution businesses. The majority of FortisOntario's generation business continues to sell its electricity to the IMO at market prices. *Bill 210* also required that distribution and transmission rates for certain customers be capped at their current levels until 2006. Currently, the transmission rates and Fort Erie and Gananoque distribution rates have been set based on a 9.88 per cent rate of return on equity. Port Colborne has implemented two-thirds of a phase-in of rates to achieve a 9.88 per cent rate of return and currently charges rates based on a 6.91 per cent rate of return. Cornwall Electric has been exempted from *Bill 210* as it does not participate in the open market in Ontario and its rates are set by the Franchise Agreement.

On December 15, 2003, *Bill 4*, the *Ontario Energy Board Amendment Act (Electricity Pricing) 2003* was passed. This legislation allows electricity distributors in Ontario to recover the costs associated with preparing for the competitive market over a 4-year period, starting April 1, 2004, and to adjust electricity rates, effective March 1, 2005. As such, FortisOntario has applied to recover some of these costs associated with its operations and intends to apply for rate adjustments in 2005.

Earnings: FortisOntario contributed $16.8 million to Fortis' earnings compared to $9.2 million last year. The increase in earnings results from the full-year impact of the acquisition of the remaining 50 per cent interest in Canadian Niagara Power and the 100 per cent interest in Cornwall Electric, as well as increased wholesale electricity prices in Ontario. The amortization of water rights, which commenced upon the acquisition of the remaining 50 per cent interest in Canadian Niagara Power, partially offset the increased earnings.

The following table summarizes FortisOntario's electricity sales and revenue for the year ended December 31, 2003. To enhance comparability, electricity sales, revenue and expenses for 2002, discussed in this section, are reported at 100 per cent for Canadian Niagara Power for the entire year. Information for Cornwall Electric and Granite Power is provided from the dates of acquisition only.

FortisOntario – Electricity Sales and Revenue

	Electricity Sales (GWh)		Revenue ($ millions)[1]	
	2003	2002	**2003**	2002
Wholesale	**657**	553	**35.5**	27.1
Distribution	**1,242**	567	**113.7**	54.2
Transmission	**–**	–	**4.9**	3.4
Other revenue[2]	**–**	–	**3.9**	1.0
Total (Gross)	**1,899**	1,120	**158.0**	85.7
Purchased power and fuel	**(1,217)**	(478)	**(90.6)**	(36.9)
Total (Net)	**682**	642	**67.4**	48.8

(1) Revenue for Canadian Niagara Power reported at 100 per cent. Revenue for Cornwall Electric and Granite Power reported from dates of acquisition.

(2) Other revenue includes interest on investments, gains/losses on disposals, foreign exchange, heating sales and miscellaneous energy sales.

Electricity Sales: Electricity sales were 1,899 GWh in 2003 compared to 1,120 GWh last year. The increase in wholesale sales arises primarily from the establishment of a wholesale electricity market in Ontario as a result of industry restructuring. The increase in distribution electricity sales relates to sales made by Port Colborne Hydro, Cornwall Electric and Granite Power.

Wholesale sales were 657 GWh in 2003 compared to 553 GWh last year. Prior to May 1, 2002, FortisOntario's Rankine entitlement was first used to supply electricity directly to its distribution customers. The remaining generation was then sold into wholesale markets, primarily in New York. FortisOntario's unregulated generation business now sells its Rankine entitlement entirely into the Ontario market and its regulated distribution business meets its sales requirements from power purchased from that market. The increase also related to generation assets acquired with Cornwall Electric and Granite Power.

Total distribution sales were 1,242 GWh in 2003 compared to 567 GWh last year. The increase in distribution sales was the result of the full-year impact of the Port Colborne Hydro Lease, which commenced April 2002, Cornwall Electric, acquired in October 2002, and the addition of Granite Power's distribution sales effective April 1, 2003.

Revenue: Gross wholesale and distribution revenue was $158.0 million in 2003 compared to $85.7 million last year. Wholesale sales were $35.5 million in 2003 compared to $27.1 million last year. The increase was due to higher wholesale sales as well as an increase in average price received. In 2003, the average price received was $54.09 per megawatt hour ("MWh"), 10.4 per cent higher than last year.

Revenue from distribution sales was $113.7 million in 2003 compared to $54.2 million last year. The increase was a result of the full-year impact of distribution sales at Port Colborne Hydro and Cornwall Electric, as well as the addition of distribution sales from Granite Power.

Revenue from transmission services was $4.9 million in 2003 compared to $3.4 million last year. The increase was the result of the full year impact of the restructuring of the Ontario electricity industry. FortisOntario commenced receiving revenue from its portion of total transmission assets in the Province effective May 1, 2002.

Other revenue was $3.9 million in 2003 compared to $1.0 million last year. The increase primarily relates to heating sales from the Cornwall District Heating cogeneration facility, which was acquired in the fourth quarter of 2002.

Expenses: Energy supply costs were $90.6 million in 2003 compared to $36.9 million last year. The increase primarily relates to the acquisitions of Cornwall Electric and Granite Power; as well, prior to May 1, 2002, there was no purchase power expense as distribution sales were fully supplied from the entitlement associated with the Rankine Generating Plant. Effective May 1, 2002, Canadian Niagara Power began purchasing its power from the IMO to supply its distribution businesses in Fort Erie and Port Colborne. Cornwall Electric purchases most of its power from Hydro Quebec while Granite Power purchases most of its power from Hydro One Networks Inc.

Operating expenses were $21.4 million in 2003 compared to $20.0 million last year. The overall increase in operating expenses is associated with the companies acquired in 2002 and 2003. The increase in operating expenses was partially mitigated by lower water rights fees and operating cost efficiencies compared to 2002.

Amortization expense increased $4.1 million over last year and is primarily associated with the acquisition of Cornwall Electric and Granite Power. The $5.7 million increase in finance charges is associated with financing the acquisitions of Cornwall Electric, Granite Power and the lease costs of Port Colborne Hydro.

Outlook: FortisOntario is projecting economic growth of approximately 1.5 per cent in the regions it serves.

There are presently 94 municipally owned utilities in the Province and the Ontario Energy Board is currently assessing the potential of further rationalization within the sector. Management believes further consolidation of municipal electric utilities is likely and FortisOntario will continue to pursue opportunities to lease or acquire local distribution companies as they become available.

The Provincial Government is also reviewing the structure of Ontario's wholesale and retail energy markets with the stated goal of increasing future investment in electricity generation to ensure the long-term supply needs of the Province.

Maritime Electric

Regulation: During 2003, under the terms of the *Maritime Electric Company Limited Regulation Act ("Regulation Act")*, base rates for electricity on Prince Edward Island were set at 110 per cent of electricity rates charged by New Brunswick Power ("NB Power") for equivalent service in New Brunswick. Legislative changes proclaimed in May 2001 provided Maritime Electric with the ability to defer and recover from customers 90 per cent of energy-related costs above $0.05 per kilowatt hour ("kWh"). In addition, the legislation provided for an adjustment to increase rates for 75 per cent of the difference between the rate of return on average common equity and the target return of 11 per cent. These mechanisms helped reduce the Company's exposure to increases in energy-related costs and provide earnings stability. The *Regulation Act* also prescribed minimum reliability standards and required Maritime Electric to maintain at least 40 per cent of its capital structure in the form of common equity. At December 31, 2003, Maritime Electric was in compliance with the common equity requirement and exceeded the legislative requirement for reliability for the 10th consecutive year.

In December 2003, the Government of Prince Edward Island passed legislation designed to return Maritime Electric to traditional rate-based cost of service regulation under the *Electric Power Act*. Effective January 1, 2004, base electricity rates will no longer be linked to those in New Brunswick. Instead, electricity rates will be based on the costs incurred to provide service on Prince Edward Island. This regulatory change will further reduce Maritime Electric's exposure to energy costs, as 100 per cent of all energy-related costs are recoverable under this regulatory framework. Management believes the change will result in increased certainty, predictability and, ultimately, a more stable regulatory environment. The *Electric Power Act* contains the same minimum common equity requirement as the *Regulation Act* but does not contain any prescribed standards for system reliability.

The results of Maritime Electric include the non-regulated generation operations of FortisUS Energy, which represent approximately 4.6 per cent of the Company's total revenue.

Earnings: Earnings were $8.2 million in 2003 compared to $6.6 million last year. The increase reflects increased electricity sales and a 2.1 per cent basic rate increase on April 1, 2003, coupled with increased energy generation and higher wholesale electricity prices at FortisUS Energy.

Electricity Sales: Electricity sales on Prince Edward Island were 958 GWh, a 2.2 per cent increase over electricity sales of 937 GWh last year. The City of Summerside departed as a wholesale customer on April 1, 2002 and contributed 26.2 GWh towards electricity sales in 2002. Excluding the impact of electricity sales to the City of Summerside in 2002, annual residential and commercial sales increased 3.9 per cent and 6.0 per cent, respectively, in 2003. The increase in residential sales reflects customer growth of 1.6 per cent and increased consumption levels and the increase in commercial sales was primarily the result of increased manufacturing and processing output.

As a result of slightly higher water flow, energy sales for the 4 plants owned by FortisUS Energy were 86 GWh in 2003 compared to 82 GWh last year.

Revenue: Revenue was $100.9 million in 2003 compared to $96.0 million last year. The loss in revenue from the City of Summerside was more than offset by higher residential and commercial sales and a 2.1 per cent basic rate increase on April 1, 2003. Also, Maritime Electric derived transmission revenues from a third party for the use of its transmission system. Increased production at FortisUS Energy and higher wholesale electricity prices, which averaged US$36.94 per MWh compared to US$27.47 per MWh last year, also contributed to the increase in revenue.

Expenses: Maritime Electric purchases the majority of its energy from NB Power and Emera Inc. ("Emera") through several energy purchase agreements. Total energy supply costs were $53.5 million in 2003 compared to $52.1 million last year. Overall, the cost per MWh for 2003 was unchanged from last year. In 2003, $17.3 million in energy-related costs ($17.2 million in 2002) had been deferred for future collection. This amount is included in accounts receivable and is expected to be recovered from customers on terms and conditions as defined by the Island Regulatory and Appeals Commission.

The energy purchase agreement with NB Power expired October 31, 2003. The energy purchase agreement with NB Power was replaced by a new agreement that increases the amount of firm energy purchased and reduces the amount of interruptible energy, thereby improving security of supply and reducing price volatility. Under the new agreement, approximately 13 per cent of Maritime Electric's energy portfolio is tied to the price of oil compared to 35 per cent under previous agreements, thereby significantly decreasing the Company's exposure to volatility in oil prices. The agreement will also replace the energy purchase agreement with Emera, which expires on December 31, 2004.

Maritime Electric continues to plan for the construction of a new 50-MW generating facility on Prince Edward Island. This facility, which is expected to have the ability to operate on either light oil or natural gas, is expected to address submarine cable loading issues and reduce reliance on imported electricity. The targeted in-service date is late 2005.

Other operating expenses were $14.3 million in 2003 compared to $13.5 million last year. The increase was due to increased costs for insurance, pension costs, energy supply planning costs and regulatory expenses. Amortization expense increased by $0.4 million to $9.7 million, primarily due to the amortization of certain deferred charges.

Outlook: The Prince Edward Island economy is forecast to grow by approximately 3.0 per cent in 2004. Electricity sales at Maritime Electric are forecast to reflect this growth rate primarily due to new customer growth, increased construction and strong performance in the tourism industry.

Belize Electricity

Fortis holds a 68 per cent interest in Belize Electricity. The results reported below represent the Company's total operations.

Regulation: Belize Electricity is regulated by the Public Utilities Commission ("PUC") under the terms of an amendment to the *1992 Electricity Act* and the *Public Utilities Commission Act of 1999*.

The PUC has approved bylaws that govern electricity rates where the distribution and transmission costs, known as the delivery component, are subject to a price cap. The quality of service standards will be formalized during a transition period from January 1, 2000 through June 30, 2005 and will become effective July 1, 2005. At that time, rates will be established for the delivery component of electricity. The cost of generating or purchasing electricity will remain as a flow through to customers. Regulations include a Cost of Power Rate Stabilization Account ("CPRSA") designed to normalize changes in the price of electricity due to fluctuating fuel costs. The CPRSA stabilizes electricity rates for consumers while providing Belize Electricity with a mechanism that permits the recovery of its cost of electricity. At December 31, 2003, the balance in this account owing from customers was $6.6 million. Effective July 1, 2002, a Hurricane Cost of Power Rate Stabilization Account was also established to normalize hurricane reconstruction costs. At December 31, 2003, the balance in this account owing from customers was $2.2 million.

Belize Electricity's licence to generate, transmit, distribute and supply electricity in Belize expires in 2015. Under the terms of the licence, the Company has a right of first refusal on any subsequent licence grant. If the licence is not renewed for any reason, Belize Electricity will be entitled to receive, upon the transfer of its electric utility assets to a new operator, the greater of market value or 120 per cent of the net book value of these assets.

Earnings: Belize Electricity's total earnings were $9.7 million (BZ$14.1 million) in 2003 compared to $10.2 million (BZ$13.0 million) last year. The increase in electricity sales and decrease in amortization expense were offset by reduced electricity rates, increased foreign exchange losses recognized on its euro-denominated debt, increased operating expenses together with the depreciation of the US dollar relative to the Canadian dollar. Excluding the effect of the foreign exchange translation, earnings grew by 8.5 per cent.

Electricity Sales: Electricity sales were 308 GWh in 2003, 10.4 per cent higher than electricity sales of 279 GWh last year. The increase was mainly driven by growth in both the commercial and residential segments, led by the aquaculture and tourism industries, and growth derived from connecting rural areas to the electrical grid. Electricity sales were also positively impacted by growth in the Company's customer base, which grew by 5.5 per cent from approximately 60,000 customers in 2002 to over 63,000 customers in 2003.

Revenue: Revenue was $72.5 million compared to $77.8 million last year. Revenue declined as a result of the depreciation of the US dollar relative to the Canadian dollar.

Excluding the effect of the depreciation of the US dollar, annual revenue increased 6.0 per cent compared to last year. The increase relates to higher electricity sales, which were partially offset by a reduction in electricity rates of BZ$0.02 per kWh implemented in July 2002 and a reduction in electricity rates of BZ$0.01 per kWh implemented in July 2003. These decreases in rates are part of Fortis' commitment to reduce rates by BZ$0.05 over a 5-year period. Rates have been reduced by BZ$0.04 per kWh, in total, since Fortis acquired the Company in October 1999.

Expenses: Energy supply costs were $37.1 million compared to $38.3 million last year. Energy supply costs associated with higher electricity sales were more than offset by depreciation of the US dollar relative to the Canadian dollar. Belize Electricity purchases the majority of its energy requirements from Comission Federal de Electricidad, the Mexican state-owned power company, and from BECOL.

Operating costs, including foreign exchange losses, were $12.5 million compared to $13.1 million last year. Excluding the effect of the depreciation of the US dollar relative to the Canadian dollar, annual operating expenses increased 7.9 per cent compared to last year. The increase in operating expenses relates to higher insurance costs, increased provision for bad debts and higher foreign exchange losses recognized on Belize Electricity's euro denominated debt. Excluding the impact of the foreign exchange loss on the euro debt, operating costs increased by only 5.2 per cent.

Excluding the effect of the depreciation of the US dollar relative to the Canadian dollar, annual amortization expense decreased 16.4 per cent compared to last year. During 2003, Belize Electricity completed a review of its amortization records and updated its annual amortization expense for assets previously retired. The decrease in finance charges is associated with the depreciation of the US dollar relative to the Canadian dollar.

Outlook: The GDP of Belize is forecast to grow by approximately 5 per cent in 2004, driven by increased activity in tourism, aquaculture and other primary industries. Belize Electricity anticipates growth in electricity demand to remain high at approximately 8 per cent to 9 per cent for 2004. Economic growth, countrywide housing investments and rural expansion projects continue to add new load.

The Company's long-term strategy is to mitigate the risk of fuel price increases by diversifying its sources of energy supply. At the same time, Belize Electricity will continue to focus on increasing productivity, reducing costs and improving reliability.

BECOL

Power Purchase Contract: BECOL sells its entire output to Belize Electricity under a 50-year power purchase agreement. The agreement is a take-or-pay contract and provides for a fixed price per kWh with an annual adjustment for inflation. The energy sales through this agreement form part of Belize Electricity's cost of power.

Earnings: BECOL experienced a loss of $0.5 million in 2003 compared to earnings of $4.6 million last year. The most significant impact on earnings in 2003 was reduced energy production caused by lower-than-normal rainfall. An unusually long dry season was experienced in the country during 2003. The rainfall was the lowest since the plant began operations in 1996.

Energy Sales: As a result of lower rainfall levels, total annual energy production was 61 GWh in 2003 compared to 88 GWh last year. The planned addition of the Chalillo Project will increase storage capacity, enabling BECOL to more fully utilize stream flows, thus increasing production by approximately 80 GWh on an annualized basis.

Revenue: Revenue for 2003 was $10.5 million compared to $16.6 million last year. Lower-than-normal rainfall levels were the primary reason for the decrease.

Expenses: Excluding the effect of the depreciation of the US dollar, operating expenses, amortization and finance charges were consistent with the previous year.

Outlook: The construction of the Chalillo Project, an upstream storage and hydroelectric generating facility, will provide BECOL with greater water storage, thereby improving the Company's ability to meet growing energy demand and to enhance reliability of supply. The Chalillo Project was delayed due to court challenges launched in 2002 and 2003. In April 2003, the PUC approved construction of the Chalillo Project. The PUC's approval follows the Court of Appeal of Belize's decision, which upheld the ruling of the Supreme Court of Belize confirming that appropriate approval of the Chalillo Project had been received. In January 2004, the Judicial Committee of the Privy Council dismissed the appeal of the Belize Alliance for Conservation Non-Government Organization against the Government of Belize's approval of construction of the Chalillo Project. Construction commenced in the second quarter of 2003 and is expected to be completed by mid-2005.

Caribbean Utilities

In January 2003, Fortis acquired an additional 15.9 per cent of the outstanding Class A Ordinary Shares of Caribbean Utilities, increasing its holding in the utility to approximately 38 per cent. Subsequently, the Corporation began accounting for this investment on the equity basis of accounting. At December 31, 2002, the Corporation held a 22 per cent interest in the Company and accounted for this investment on the cost basis of accounting, including in its results only the dividend income received.

Regulation: Caribbean Utilities operates the only electric utility on Grand Cayman, Cayman Islands, pursuant to a 25-year exclusive licence expiring in 2011. Under the terms of the licence, the Company is permitted to earn a rate of return on rate base of 15 per cent and is permitted to flow through fuel costs to customers.

In July 2002, Caribbean Utilities submitted a licence extension proposal to the Government of the Cayman Islands that included a price cap rate-setting mechanism to replace the existing rate of return on rate base formula. The current licence remains in full force and effect until 2011 or until replaced or changed by mutual agreement. Caribbean Utilities and the Government have commenced talks pertaining to the licence extension and the 3 per cent rate increase implemented in August 2003. Under the relevant provision of the licence, the Government challenged the 3 per cent rate increase and, as part of the commencement of negotiations, Caribbean Utilities agreed to reduce rates by 3 per cent effective November 1, 2003 and the Government agreed not to refer the dispute to judicial proceedings.

Equity Income: Equity income recorded from Caribbean Utilities in 2003 totalled $10.5 million compared to $4.9 million last year. The increase related primarily to increased investment in Caribbean Utilities in January 2003 partially offset by the depreciation of the US dollar relative to the Canadian dollar.

Outlook: Despite a softening in tourism due to the events of September 11, 2001 and an economic slowdown in the United States, GDP is expected to grow by 2.3 per cent in 2004. Caribbean Utilities continues to forecast electricity sales growth of approximately 4 per cent to 5 per cent over the next 5 years. These projections are based, in part, on development plans approved by the Cayman Islands Central Planning Authority and historical growth trends. Based on these projections, Caribbean Utilities plans to invest approximately US$100 million in capital projects over the next 5 years.

Exploits Partnership

The Exploits Partnership is a partnership with Abitibi-Consolidated to construct, install and operate additional generating capacity at its hydroelectric plant at Grand Falls-Windsor and to redevelop its hydroelectric plant at Bishop's Falls, both in central Newfoundland. The project operations commenced in November 2003; however, due to low reservoir levels, the Exploits Partnership did not contribute to Fortis' earnings in 2003. The Corporation holds a 51 per cent interest in the Partnership and Abitibi-Consolidated holds the remaining 49 per cent interest. The increased energy from the project operations is being sold to Newfoundland Hydro under a long-term take-or-pay power purchase agreement, which is exempt from regulation.

Fortis Properties

Fortis Properties has 2 operating divisions: Real Estate and Hospitality.

Earnings: Earnings were $11.0 million in 2003, an increase of 18 per cent compared to earnings of $9.3 million last year. The results reflect increased earnings from newly acquired real estate and hotel properties and improved productivity at existing operations.

	Revenue		**Operating Income**(1)	
($ millions)	**2003**	2002	**2003**	2002
Real Estate	**51.0**	48.8	**26.2**	25.2
Hospitality	**62.7**	41.6	**14.9**	9.7
Total	**113.7**	90.4	**41.1**	34.9

(1) Earnings before interest, taxes, depreciation and amortization.

Real Estate Division: Growth in revenue of 4.5 per cent and in operating income of 4.0 per cent resulted mainly from the full-year impact of the 2002 acquisitions of Cabot Place and Kings Place. Operating expenses were $24.8 million compared to $23.7 million in 2002. The increase was primarily due to operating expenses associated with these properties.

Fortis Properties' real estate portfolio, anchored by high-quality tenants with long-term leases, has benefited from

low vacancy and stable rental rates. The occupancy rate of the Real Estate Division improved to 94.5 per cent in 2003 compared to 94.2 per cent last year. Exposure to lease renewals averages 10.1 per cent per annum over the next 5 years. The 2003 national occupancy level for the real estate sector was 86.4 per cent.

Hospitality Division: The growth in revenue of 50.7 per cent and in operating income of 53.6 per cent was mainly the result of a full year of operations of the Delta St. John's Hotel, the acquisition of 4 hotels in Ontario during 2003 and an increase in revenue per available room ("REVPAR") for the 8th consecutive year. REVPAR for the Hospitality Division was $69.98 compared to $62.03 last year.

Operating expenses were $47.8 million in 2003 compared to $31.8 million last year. The increase in operating expenses was mainly due to the addition of the Delta St. John's Hotel and the 4 hotels in Ontario.

Outlook: The revenue and earnings impact from the acquisitions in 2003 is expected to provide the primary growth in 2004. The commercial real estate sector has benefited from strong economic growth. Rental and vacancy rates have improved and are now relatively stable.

In the Hospitality Division, growth is forecast in room rates, occupancy and REVPAR. This growth is primarily due to the contribution expected from the additional 630 rooms added with the acquisition of the 4 hotels in Ontario. Fortis Properties' hotel portfolio, concentrated in Atlantic Canada, has shown continued resilience to downward market trends in the hospitality industry.

Effective January 1, 2004, new recommendations by the Canadian Institute of Chartered Accountants effectively eliminate certain industry-specific accounting practices, which previously qualified as generally accepted accounting principles. Fortis Properties is assessing its depreciation accounting policy to comply with these new recommendations and, as required under the recommendations, any change will be adopted with no restatement of prior period amounts. It is expected that the change in accounting policy from the sinking fund method of depreciation to the straight-line method will negatively impact after-tax earnings by approximately $2.7 million in 2004.

Corporate

The Corporate segment captures a number of expense and revenue items not specifically related to any operating segment. Net corporate costs, including dividends on preference shares, totalled $8.6 million compared to $7.0 million in 2002. Included in net corporate expenses are finance costs related to debt incurred by Fortis and other corporate expenses net of recoveries from subsidiaries, interest and miscellaneous revenues and related income taxes. The increase primarily relates to increased operating expenses and increased preference share dividends partially offset by increased inter-corporate revenues. The increase in operating expenses primarily relates to acquisition costs associated with the acquisition of Aquila, Inc.'s Canadian utility assets. The increase in preference share dividends is associated with the issuance of $125 million First Preference Shares, Series C in June 2003. The proceeds were primarily used to replace short-term acquisition financings.

Consolidated Financial Position

The following table outlines the significant changes in the consolidated balance sheets as at December 31, 2003 and December 31, 2002.

($ millions)	Increase (Decrease)	Explanation
Cash and cash held in escrow	29.2	Increased cash primarily relates to timing of capital projects, improved working capital position at FortisOntario and contributions from acquisitions completed in 2003 and 2002.
Accounts receivable and other receivables	(5.8)	The decrease primarily relates to a reduction in the CPRSA at Belize Electricity as well as a reduction in trade receivables caused by the depreciation of the US dollar relative to the Canadian dollar.
Deferred charges	24.3	The increase relates to deferred pension costs at Newfoundland Power resulting from funding of the pension plan in excess of pension expense, acquisition costs associated with the purchase of utilities in Alberta and British Columbia and issuance costs related to the Subscription Receipts.
Utility capital assets	59.0	The increase relates to utility capital expenditures of $159.8 million and the acquisition of Granite Power, offset by regular amortization and decrease in the value of assets denominated in US dollars as a result of the appreciation of the Canadian dollar.
Income producing properties	44.2	Relates to acquisition of 4 hotels in Ontario in the fourth quarter of 2003.
Investments	72.0	Increased investment in Caribbean Utilities.
Intangibles	(3.7)	Relates to amortization of water rights held by FortisOntario.
Goodwill	5.8	The increase primarily relates to the acquisition of Granite Power on April 1, 2003 and the finalization of purchase price allocations of certain investments in Ontario in 2003.
Short-term borrowing	(52.7)	The decrease primarily relates to the repayment of short-term financing with proceeds from the preference share issue in June 2003.
Accounts payable and accruals	8.3	The increase primarily relates to 2003 acquisitions, partially offset by depreciation of the US dollar relative to the Canadian dollar.
Long-term debt (including current portion)	104.3	The increase is associated with financing activities in 2003. Fortis issued a US$10 million debenture, FortisOntario secured a $5 million revolving loan, Canadian Niagara Power and Cornwall Electric issued $52 million in unsecured notes, Fortis Properties completed a $35 million refinancing of Brunswick Square in Saint John, New Brunswick and also secured $30 million in financing to acquire the 4 hotels in Ontario. Belize Electricity secured a BZ$10 million (CDN$6.5 million) loan to support its capital program. The Exploits Partnership and Belize Electricity also utilized approximately $52.9 million of their existing long-term financings. The cash received from financing activities was partially offset by regular short- and long-term debt repayment, use of cash held in escrow, repayment of the Fortis Properties expiring debt, the payment of dividends on common shares and a reduction in the value of US dollar-denominated debt as a result of the appreciation of the Canadian dollar.
Future income taxes	10.9	The increase primarily relates to the final purchase price adjustment for Cornwall Electric, the acquisitions of Granite Power and Rideau Falls and increased corporate income tax rates in Ontario.
Non-controlling interest	(3.2)	The decrease results from the depreciation of the US dollar relative to the Canadian dollar.
Shareholders' equity	151.8	A $125 million preference share issue completed in June 2003 and increased earnings contributed to the increase in shareholders' equity. This increase was partially offset by the $18.7 million decrease in the foreign currency translation adjustment account resulting from the depreciation of the US dollar relative to the Canadian dollar. The assets and liabilities of foreign operations, all of which are self-sustaining, are translated at the exchange rates in effect at the balance sheet dates. The resulting unrealized translation loss is accumulated under shareholders' equity.

Liquidity and Capital Resources

The following table outlines the summary of cash flow.

Summary of Cash Flow
Year Ended December 31

($ millions)	**2003**	2002
Cash, beginning of year	**26.3**	14.3
Cash provided by (used in)		
Operating activities	**160.6**	134.4
Investing activities	**(308.0)**	(348.7)
Financing activities	**189.6**	226.0
Foreign currency impact on cash balances	**(3.4)**	0.3
Cash, end of year	**65.1**	26.3

Operating Activities: Cash flow from annual operating activities was $160.6 million compared to $134.4 million last year. The acquisitions completed in 2002, as well as improved operating earnings at most subsidiaries, contributed to the improvement in cash from operations.

Investing Activities: Consolidated investing activities were $308.0 million in 2003 compared to $348.7 million last year. Acquisitions and new capital projects accounted for $179.5 million, while capital expenditures for ongoing operations accounted for $110.1 million. The remaining $18.4 million primarily related to deferred charges associated with the acquisition of the Alberta Utility and British Columbia Utility.

Acquisitions and new capital projects consisted of $71.0 million for the increased investment in Caribbean Utilities, $10.9 million, net of cash acquired, for the purchase of Granite Power and Rideau Falls, $17.6 million for completion of the Exploits Partnership project, $5.5 million for poles and related infrastructure acquired from Aliant Telecom, $10.1 million relating to the construction of the Chalillo Project and $21.2 million for capital projects, primarily the gas turbine project, at Belize Electricity. The acquisition of the 4 hotels in Ontario amounted to $43.2 million.

The Corporation's utility operations are capital intensive. Maintenance capital expenditures were $110.1 million compared to $101.8 million last year. The following table outlines maintenance capital expenditures by operating segment.

Maintenance Capital Expenditures

($ millions)	**2003**	2002
Newfoundland Power	**60.7**	51.8
FortisOntario	**11.1**	4.7
Maritime Electric	**16.6**	17.0
Belize Electricity	**16.1**	22.8
BECOL	**0.9**	0.7
Fortis Properties	**4.7**	4.8
Total	**110.1**	101.8

The utility capital expenditures were mainly associated with the replacement and upgrading of electricity systems to improve reliability and customer service. The increase in capital expenditures at FortisOntario primarily include the full-year ownership impact of Canadian Niagara Power and Cornwall Electric.

Financing Activities: Excluding the financings associated with the commitment to acquire the Alberta Utility and British Columbia Utility, which are discussed separately below, Fortis continued to successfully access the capital markets to support its increased investments in Ontario and the Caribbean region as well as its existing business units. Fortis and its subsidiaries raised approximately $140 million in long-term debt and an additional $52.9 million was drawn on existing long-term debt facilities. Fortis also issued $125 million in preference share securities. After long-term debt repayments and payment of dividends on common and preference shares, net financing activities were $189.6 million in 2003. The financing activities are outlined below.

On June 3, 2003, the Corporation completed the public offering of 5 million 5.45 per cent cumulative redeemable convertible First Preference Shares, Series C for gross proceeds of $125 million. The proceeds were used to repay short-term acquisition financing and strengthen the Corporation's balance sheet.

On May 20, 2003, Fortis issued US$10 million of 5.5 per cent Unsecured Subordinated Convertible Debentures, which are redeemable by the Corporation at par at any time on or after May 20, 2008 and are convertible, at the option of the holder, into the Corporation's common shares at US$47.86 per share.

On August 14, 2003, Canadian Niagara Power and Cornwall Electric, both regulated subsidiaries of FortisOntario, issued $52 million of 7.092 per cent Unsecured Notes maturing in 2018. The net proceeds were paid to Fortis to repay an existing short-term acquisition facility. FortisOntario had also drawn $5 million on its revolving demand loan to finance the acquisition of Granite Power.

Belize Electricity secured a BZ$10 million (CDN$6.5 million) 10.5 per cent 5-year loan from the First Caribbean International Bank. Belize Electricity also drew down approximately $30.2 million on its existing facilities. Funds were used to support the Company's capital program including the gas turbine project.

On September 17, 2003, Fortis Properties completed a $35 million 6.58 per cent refinancing of Brunswick Square in Saint John, New Brunswick. The $35 million was used to extinguish the expiring debt of approximately $21.5 million. The remainder of the proceeds was used to contribute towards the financing of the 4 hotels in Ontario.

On October 9, 2003, Fortis Properties secured a $30 million 7.3 per cent First Mortgage to help finance the acquisition of the 4 hotels in Ontario. The remainder of the acquisition was financed by net proceeds from the refinancing of Brunswick Square.

The Exploits Partnership drew down approximately $22.7 million of its project financing in 2003. This amount includes the drawdown of $9.6 million of cash held in escrow.

Alberta Utility and British Columbia Utility Acquisition Financing: Fortis has obtained short-term commitments from a syndicate of chartered banks for approximately $1.3 billion to complete the purchase of the Alberta Utility and British Columbia Utility.

Fortis finances its investments with a combination of debt and equity and targets a long-term capital structure that includes a minimum of 40 per cent equity and 60 per cent debt. To mitigate the risk of weak capital market conditions and higher interest rates, Fortis has proceeded to secure some of the permanent financing for the acquisition prior to closing. To help complete the equity financing component related to this acquisition, on October 8, 2003, Fortis issued 6.31 million Subscription Receipts at $55.50 each for gross proceeds of approximately $350 million. The gross proceeds from the sale of Subscription Receipts are held by an escrow agent pending closing of the acquisition. Each Subscription Receipt entitles the holder to receive, on satisfaction of the closing conditions, one Common Share of Fortis and a cash payment equal to the dividends declared on each Fortis Common Share during the period from October 8, 2003 to the date of issuance of the Common Shares in respect of the Subscription Receipts. In the event that the applicable closing conditions are not satisfied prior to June 30, 2004, or if either of the share purchase agreements relating to the acquisition is terminated prior to such time, the holders of Subscription Receipts will be entitled to receive an amount equal to the full subscription price plus their pro rata share of the interest earned on such amount.

The remaining equity component was secured on January 29, 2004 when Fortis completed the issuance of 8 million First Preference Units of the Corporation. Each First Preference Unit consists of one Series D First Preference Share of the Corporation and one Series E First Preference Share Purchase Warrant. The purchase price of $6.25 per First Preference Unit resulted in initial gross proceeds of approximately $50 million. Provided the acquisition closes by June 30, 2004, the Series D First Preference Shares and the Series E First Preference Shares, if issued, are expected to result in additional gross proceeds of $150 million, which will be used to repay the short-term indebtedness incurred by the Corporation on closing of the acquisition.

Fortis expects to issue approximately $200 million in long-term debt to repay the bridge financing, with the remainder of the purchase price being financed by the issuance of long-term debt and the assumption of existing long-term debt in the Alberta Utility and British Columbia Utility.

To reduce Fortis' exposure to interest rate risk on its expected long-term debt issue, on December 2, 2003 Fortis entered into a forward interest rate swap agreement that will swap 90-day bankers' acceptance interest rate payments on $200 million of long-term debt to 5.6 per cent. The swap agreement has been designated as a hedge against the planned issuance of long-term debt. The cash payment received or paid on the termination of this agreement will be amortized over the term of the new debt, effectively setting the rate at approximately 5.6 per cent plus credit spread.

Liquidity: Fortis' primary business of electric utilities requires it to have ongoing access to capital to build and maintain the electrical systems in its service territories. In order to ensure that this access is maintained, the Corporation targets a long-term capital structure that includes a minimum of 40 per cent equity and 60 per cent debt. The Subscription Receipt financing in October 2003 and the First Preference Share Unit financing in January 2004 together with the committed financing facilities for the acquisition of the Alberta Utility and British Columbia Utility has provided the Corporation with sufficient capital resources to meet this obligation. In addition to the acquisition financing, Fortis estimates consolidated capital expenditures for 2004 will be approximately $290 million, including the Alberta and British Columbia Utilities. Fortis expects to finance its capital expenditures with a combination of long-term and short-term borrowings, internally generated funds and the issuance of equity.

Capital Structure and Credit Ratings

The capital structure of Fortis is presented in the following table.

	2003		2002	
	($ millions)	***(%)***	*($ millions)*	*(%)*
Total debt (net of cash)	**1,105.1**	**60.0**	1,082.9	64.9
Shareholders' equity	**737.7**	**40.0**	585.8	35.1
Total	**1,842.8**	**100.0**	1,668.7	100.0

The improved capital structure results primarily from the completion of the public offering of 5 million First Preference Shares for gross proceeds of $125 million. The growth in retained earnings in 2003 also contributed to the improved capital structure.

The growth in earnings in 2003 allowed the Corporation to increase its common share dividends to $36.4 million, or $2.08 per common share, compared to $33.2 million, or $1.94 per common share, in 2002. Fortis has increased its dividends paid per common share every year since its inception in 1987. The dividend payout ratio was 48.9 per cent compared to 49.9 per cent in 2002.

Key financial ratios were as follows:

	2003	2002
Cash flow to interest (x)(1)	**2.6**	2.7
Cash flow to total debt (%)(2)	**12**	13

(1) Cash flow from operations before changes in working capital and gross interest expense divided by gross interest expense.

(2) Cash flow from operations before changes in working capital divided by 2-year average debt.

On January 7, 2004, Standard & Poor's ("S&P") lowered its corporate credit rating on the Corporation from A(–) to BBB(+). The rating change was consistent with other credit rating downgrades of Canadian utilities over the past year. S&P is maintaining a negative outlook on the Corporation, largely associated with the integration risks of the Alberta Utility and British Columbia Utility. Dominion Bond Rating Service ("DBRS") continues to rate the Corporation's bonds at BBB(high).

As at December 31, 2003, the Corporation's credit ratings were as follows:

	2003	2002
S&P	**BBB(+)**	A(–)
DBRS	**BBB(high)**	BBB(high)

Business Risk Management

Fortis' key business risk is regulation. At December 31, 2004, approximately 70 per cent of the Corporation's operating assets, excluding goodwill, are expected to be Canadian regulated distribution assets compared to 54 per cent as at December 31, 2003. In total, regulated assets are expected to represent approximately 84 per cent of the total operating assets as at December 31, 2004. As such, regulation is the Corporation's key business risk. In addition to regulation, Fortis is exposed to changes in interest rates, value of foreign currencies, energy prices and energy costs. Weather and general economic conditions also impact the results of operations. The geographic, regulatory and business diversity of the Corporation's operations help mitigate any single business risk.

Regulation: Each of the Corporation's utilities is subject to some form of regulation which can impact future revenue and earnings. Management at each operating utility is responsible for working closely with regulators and local governments to ensure both compliance with existing regulation and the proactive management of regulatory issues. Fortis' regulated utilities currently have risks associated with pending regulatory proceedings, approvals and legislative changes.

Newfoundland Power's regulated earnings represented approximately 40 per cent of the Corporation's total earnings for 2003. However, with the acquisition of the Alberta Utility and British Columbia Utility, Newfoundland Power's earnings will comprise a smaller portion of the Corporation's total earnings. In 2004, the PUB is expected to conduct hearings to examine issues common to both Newfoundland Power and Newfoundland Hydro, such as regulatory filing requirements for capital expenditures, electrical system planning and, possibly, performance-based regulation ("PBR"). Significant customer rate increases are likely to result from Newfoundland Hydro's 2003 GRA and the impact of fuel costs on Newfoundland Hydro's Rate Stabilization Account. These increases are likely to negatively impact the competitive position of electricity. In 2002, the Provincial Government released its EPR (first announced in August 1998) examining possible structures for the provincial electricity industry. Despite public consultations and the resulting report, no new positions have been adopted. The Company will continue to promote positive regulatory change and industry rationalization. Newfoundland Power views regulatory change as inevitable; however, it is impossible to predict its timing, ultimate structure and effect on the Company.

The Ontario electricity market opened in May 2002, at which time electricity rates were unbundled and separate rates charged for commodity, transmission, distribution and ancillary services. During 2002 and 2003, market prices for electricity in Ontario increased and became more volatile as a result of increased energy demand and reduced capacity. The Government announced a rate freeze on distribution and other charges and a review as to how these charges are calculated. Distribution revenues for FortisOntario have been only modestly impacted by the freeze in distribution charges. Fort Erie's and Gananoque's current distribution rates include the full cost of service and Port Colborne distribution rates are at 67 per cent of a market-based return.

In November 2003, the Government announced that, over a 4-year period beginning April 2004, distribution utilities could recover the costs associated with preparing for the competitive market in 2004 and could adjust rates beginning in 2005 to earn a full market rate of return. FortisOntario has applied for the recovery of these costs.

Cornwall Electric is granted an exemption under the *Ontario Electricity Act* and *Bill 210*. Cornwall Electric's rates are subject to an annual adjustment mechanism that flows through to customers the actual cost of power and increases rates by an inflationary factor to cover other costs. The price cap on electricity rates has not impacted the wholesale electricity market in Ontario and FortisOntario's generation revenues.

The Ontario regulatory environment is evolving and presents modest risks to Fortis' revenue and earnings, such as the current freeze on distribution charges. However, with recent Government announcements, including *Bill 4* in November 2003, Fortis believes these risks have diminished.

In December 2003, the Government of Prince Edward Island passed legislation designed to return Maritime Electric to traditional cost of service regulation under the *Electric Power Act*. Effective January 1, 2004, base electricity rates will no longer be linked to those in New Brunswick. Instead, electricity rates will be based on the costs incurred to provide service on Prince Edward Island. This regulatory change will further reduce Maritime Electric's exposure to energy costs, as 100 per cent of all energy-related costs are recoverable under this regulatory framework. Management believes the change will result in increased certainty, predictability and, ultimately, more stable earnings. Management will continue to work with Government to ensure the changes to the regulatory environment do not adversely affect the Company's ability to provide reliable service while earning an acceptable return.

The regulations in Belize provide for electricity rates that are comprised of 2 components. The first component, value-added delivery ("VAD"), represents the costs of the distribution and transmission systems, fixed generation costs and customer and administration costs. The second component represents the cost of fuel and variable operating costs of generation and power purchase expenses. The VAD is subject to cost of service regulation that includes 4-year rate-setting periods. Belize Electricity is approaching the end of a 5-year transition period which will culminate with the introduction of a PBR model for costs other than the cost of wholesale power. Belize Electricity is endeavouring to establish an appropriate base for rates entering the expected new rate regime, which will cover the period 2005 through 2009.

Caribbean Utilities operates under an exclusive licence due to expire in 2011. Under the terms of the licence, the Company is permitted to increase electricity rates annually to recover its costs plus earn a 15 per cent return on rate base. In July 2002, Caribbean Utilities submitted a licence extension proposal to the Government of the Cayman Islands that would replace the 15 per cent rate of return on rate base mechanism with a price cap formula. Under the formula, electricity rates would be tied to published inflation indices with fuel costs, regulatory costs and Government levies as flow through recoveries. Fortis believes the proposal is positive and will enhance the value of the Corporation's investment in Caribbean Utilities. A price-cap model can provide earnings consistent with the current agreement. However, with a cap on rate increases, management will need to increase its focus on improving operating efficiencies. The current licence remains in full force and effect until 2011, or until replaced or changed by mutual agreement. Under the relevant provision of the existing licence, the Government challenged a 3 per cent rate increase implemented by Caribbean Utilities in August 2003. As part of the commencement of negotiations, Caribbean Utilities agreed to reduce rates by 3 per cent effective November 1, 2003 and the Government agreed not to refer the dispute to judicial proceedings.

Subject to completion of all regulatory and other approvals, the acquisition of the Alberta Utility and British Columbia Utility will introduce the Corporation to 2 additional regulatory jurisdictions.

The Alberta Utility is regulated under a traditional cost of service regulatory model by the Alberta Energy and Utility Board ("AEUB"). The approval of the Fortis acquisition, the setting of a regulated capital structure and return on equity, including the possible establishment of an automatic adjustment formula, and the setting of electricity rates for 2005 are the most significant regulatory issues for the Alberta Utility over the next year.

The proceedings before the AEUB to consider the approval of the acquisition by Fortis and related matters concluded on February 25, 2004. At the time of printing, the matter was being considered by the AEUB. The AEUB approval is expected to enable closing of the acquisition by June 2004.

The AEUB is currently holding a generic cost of capital hearing to establish a uniform approach for determining the equity cost of capital in setting tariffs for regulated electricity service. As part of the generic cost of capital hearing, an automatic adjustment formula, which changes the return on equity used for rate making purposes to correspond to changes in Canada long bond yields, will be considered by the AEUB. Such formulas have been established by provincial regulators and the National Energy Board.

In establishing its current regulated rates, the Alberta Utility is provided a 9.50 per cent return based on 40 per cent common equity in its capital structure. Potential changes to the regulated capital structure and return on equity together with the possibility of an automatic adjustment formula presents uncertainties for the future earnings of the Alberta Utility.

The current regulatory rates for the Alberta Utility were approved in August 2003. Fortis expects the Alberta Utility to file an application with respect to rates for 2005 and possibly 2006 in the fourth quarter of 2004.

The British Columbia Utilities Commission ("BCUC") regulates the British Columbia Utility. Revenue and rates are based on traditional cost of service regulation, but are also subject to a PBR mechanism that is used to establish annual rate adjustments. The approval of the Fortis acquisition and the setting of rates for 2004 and 2005, including the rebasing of the PBR mechanism, are the most significant regulatory issues for the British Columbia Utility over the next year.

At the time of printing, the proceedings before the BCUC to consider the approval of the acquisition by Fortis were expected to conclude on March 29, 2004. The BCUC approval is expected to enable the closing of the acquisition by June 2004.

The British Columbia Utility is currently provided a 9.55 per cent return on equity, which is established annually by an automatic adjustment formula.

The current PBR mechanism for the British Columbia Utility was established in 1999 and through a negotiated settlement was extended for 2003. The British Columbia Utility is requesting to extend the mechanism to 2004, allowing Fortis time to take ownership before filing a full rate case to establish 2005 rates and a new PBR mechanism. Fortis expects the British Columbia Utility capital program to be the most influential factor in rate changes over the near term. The establishment of 2005 rates and the rebasing of the PBR mechanism present uncertainties for the future earnings of the British Columbia Utility.

Interest Rates: Fortis manages interest rate risk by locking in interest rates for long periods through fixed rate debt. The Corporation also utilizes interest rate swaps. Approximately 80 per cent of the Corporation's long-term debt facilities have maturities beyond 2008. The Corporation's exposure to interest rate risk is associated with short-term debt. The amount of short-term debt at year end was $104 million, or 9 per cent of total debt.

Generally, allowed returns for regulated utilities are also exposed to changes in the general level of interest rates. Earnings of regulated utilities are exposed to changes in interest rates associated with rate-setting mechanisms. The rate of return is either directly impacted through automatic adjustment mechanisms or indirectly through regulatory determinations of what constitutes appropriate returns on investment.

Foreign Exchange: Earnings from Belize Electricity and BECOL are denominated in Belizean dollars, earnings from Caribbean Utilities are denominated in Cayman Island dollars and earnings from FortisUS Energy are denominated in US dollars. Both the Cayman Island dollar and the Belizean dollar are pegged to the US dollar: CI$1.00 = US$1.22; BZ$1.00 = US$0.50. Foreign earnings derived in currencies other than the US dollar must be converted into US dollars before repatriation, presenting temporary liquidity risks. Due to the small size and cyclical nature of the economy in Belize, conversion of local currency into US dollars may be subject to restrictions from time to time.

Earnings and cash flow from these operations are exposed to changes in US exchange rates. These operations accounted for 24 per cent of Fortis' total earnings in 2003. The Corporation has effectively decreased its exposure to foreign currency exchange rate fluctuations on a substantial portion of its cash flows through the use of a US dollar currency swap, where the interest payment on a $100 million debenture is converted into a US dollar interest payment. In addition, Fortis has US$20 million in subordinated debentures for which interest payments are also matched to US dollar cash flow. The Corporation's use of financing in the currency of the underlying investment provides a natural hedge against foreign currency exchange rate risk. However, Fortis continues to be exposed to foreign currency fluctuations to the extent that earnings from foreign subsidiaries exceed these hedges. For 2004, the Corporation has effectively eliminated 25 per cent of its exposure to foreign currency exchange rate fluctuations and the sensitivity to each 2 cent change in the US dollar exchange rate will result in a 1 cent change in the Corporation's earnings per common share.

Energy Prices: The Corporation's primary exposure to change in energy prices relates to generation sales at FortisOntario and FortisUS Energy. FortisOntario sells its electricity to the IMO at market prices while FortisUS Energy sells its electricity to National Grid USA at contract prices. Approximately 30 per cent of the energy sales to National Grid USA are under fixed-price contracts expiring in 2006 and the remaining energy sales are at market prices. Generation sales from these companies represent approximately 4 per cent of Fortis' total revenues. The sensitivity of the Corporation's earnings to each $1 per MWh change in the wholesale market price of electricity is expected to be $0.4 million in 2004.

All other Fortis utilities flow through energy and fuel costs in their electricity rates. The Exploits Partnership and BECOL price their production through long-term fixed-price contracts.

Energy Costs: Fortis utilities flow through the entire cost of energy, including fuel, to customers. Up to December 31, 2003, Maritime Electric's exposure was limited under legislation, as 90 per cent of all energy costs above $0.05 per kWh were deferred for collection from customers. The risk was further mitigated by Maritime Electric's latest energy agreements, which secured a larger portion of its supply as firm energy at fixed prices. On January 1, 2004 the Government of Prince Edward Island passed legislation returning Maritime Electric to traditional cost of service regulation. Under this model, the entire cost of energy, including fuel, will flow through to customers.

Weather: Fortis utilities are exposed to climatic factors which are generally addressed by regulatory mechanisms. Extreme weather conditions can impact the physical assets of the distribution utilities and the production of the Corporation's hydroelectric generation assets.

The utilities have built their systems to withstand severe weather conditions and have developed expertise in rapid deployment of personnel and equipment to effect repairs in extreme weather conditions. The Corporation uses a centralized insurance management function to create a higher level of insurance expertise and reduce its liability exposure.

The assets and earnings of Belize Electricity and Caribbean Utilities are subject to hurricane risk. The Company manages this risk through purchased insurance on its generation assets and through self-insurance on its transmission and distribution assets. The PUC provides for recovery of certain costs arising from hurricanes through a surcharge on electricity rates, thereby mitigating the financial impact to Belize Electricity. Caribbean Utilities also manages hurricane risk through the use of robust construction standards and carries a comprehensive suite of insurance products.

The generation sales of BECOL, FortisUS Energy and the Exploits Partnership are sensitive to rainfall levels. The geographic diversity of the Corporation's generation assets mitigates this risk.

General Economic Conditions: As electric utility earnings are closely tied to the economic performance of their franchise areas, earnings are exposed to general downturns. The impact to the Corporation of an economic slowdown in a particular operating territory is mitigated by the geographic diversification of Fortis companies. The regulated nature of utility operations and the long-term nature of property leases reduce the risk of economic downturns on the majority of the Corporation's earnings.

The Hospitality Division of Fortis Properties has the greatest exposure to changes in the economy. Management believes that based on the nature of its business in Atlantic Canada, the Company is not exposed to a significant reduction in revenues. A 5 per cent decrease in revenues from the Hospitality Division would reduce earnings by approximately $0.7 million.

Completion and Integration of Aquila, Inc.'s Canadian Utilities: Fortis will continue to focus on fulfillment of all regulatory and other approvals to complete the acquisition of the Alberta Utility and British Columbia Utility and has appointed a transition team to lead the integration of these assets. In the event the transaction does not close, Fortis will have to expense approximately $19 million in acquisition costs (approximately $13 million after tax) as well as the cost of unwinding the interest rate hedge agreement entered into in December 2003.

Real Estate Investments: Fortis Properties holds investments in both commercial real estate and hotel properties. The hotel properties, in particular, are subject to operating risks associated with industry fluctuations and possible downturns. The high quality of the Company's assets, the strength of its brands and its commitment to productivity improvement reduce the exposure to industry fluctuations and possible downturns.

Fortis Properties' real estate investments are also anchored by high-quality tenants with long-term leases. Exposure to lease renewals averages 10.1 per cent per annum over the next 5 years. Approximately 64 per cent of the Company's earnings are derived from real estate investments, which further mitigates the risk associated with fluctuations in the hospitality industry.

Selected Financial Information

Quarterly Revenue and Earnings (Unaudited)

	Operating Revenue	Earnings before Non-Controlling Interest	Earnings Applicable to Common Shares	
			Aggregate	Per Share
Quarter Ended	*($000s)*	*($000s)*	*($000s)*	*($)*
March 31, 2002	182,755	15,745	14,994	0.99
June 30, 2002	166,565	17,575	16,545	1.05
September 30, 2002	169,927	19,452	17,989	1.05
December 31, 2002	196,218	14,709	13,724	0.80
March 31, 2003	235,429	20,609	19,960	1.15
June 30, 2003	205,582	22,330	20,796	1.20
September 30, 2003	191,445	20,901	18,114	1.05
December 31, 2003	210,624	17,611	14,760	0.85

Management's Responsibility for Financial Reporting

The accompanying Consolidated Financial Statements of Fortis Inc. and all information in the 2003 Annual Report have been prepared by management, who are responsible for the integrity of the information presented including the amounts that must of necessity be based on estimates and informed judgments. These Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in Canada. Financial information contained elsewhere in the 2003 Annual Report is consistent with that in the Consolidated Financial Statements.

In meeting its responsibility for the reliability and integrity of the Consolidated Financial Statements, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure transactions are properly authorized and recorded, assets are safeguarded and liabilities are recognized. The systems of the Corporation and its subsidiaries focus on the need for training of qualified and professional staff, effective communication between management and staff and management guidelines and policies. The effectiveness of the internal controls of Fortis Inc. are evaluated on an ongoing basis.

The Board of Directors oversees management's responsibility for financial reporting through an Audit Committee which is composed entirely of outside directors. The Audit Committee meets with the shareholders' auditors, with and without management present, to discuss the results of the audit, the adequacy of the internal accounting controls and the quality and integrity of financial reporting. The Corporation's annual consolidated financial statements are reviewed by the Audit Committee with each of management and the shareholders' auditors before the statements are recommended to the Board of Directors for approval. The shareholders' auditors have full and free access to the Audit Committee.

The Audit Committee has the duty to review the adoption of, and changes in, accounting principles and practices which have a material effect on the consolidated financial statements, to review the Corporation's use of derivative financial instruments, to review financial reports requiring Board approval prior to submission to securities commissions or other regulatory authorities, to assess and review management judgments material to reported financial information and to review shareholders' auditors' fees.

The December 31, 2003 Consolidated Financial Statements and Management Discussion and Analysis contained in the 2003 Annual Report were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of Fortis Inc.

Ernst & Young, LLP, independent auditors appointed by the shareholders of Fortis Inc. upon recommendation of the Audit Committee, have performed an audit of the 2003 Consolidated Financial Statements and their report follows.

H. Stanley Marshall President and Chief Executive Officer	**Barry V. Perry** Vice President, Finance and Chief Financial Officer

Auditors' Report

To the Shareholders of Fortis Inc.

We have audited the consolidated balance sheet of Fortis Inc. as at December 31, 2003 and the consolidated statements of operations, shareholders' equity and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2002 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 11, 2003.

Ernst & Young LLP

St. John's, Canada,
February 6, 2004 — Chartered Accountants

Consolidated Balance Sheets

FORTIS INC.

(Incorporated under the laws of the Province of Newfoundland and Labrador)

As at December 31 (in thousands)

ASSETS	**2003**	2002
Current assets		
Cash and cash equivalents	**$ 65,094**	$ 26,258
Accounts receivable	**100,666**	101,306
Other receivables	**29,585**	34,766
Materials and supplies	**16,470**	17,792
	211,815	180,122
Corporate income tax deposit *(Note 23)*	**6,949**	6,949
Cash held in escrow *(Note 8)*	**3,810**	13,458
Deferred charges *(Note 3)*	**123,204**	98,933
Utility capital assets *(Note 4)*	**1,275,873**	1,216,842
Income producing properties *(Note 5)*	**333,604**	289,447
Investments *(Note 6)*	**167,752**	95,751
Intangibles, net of amortization	**22,139**	25,823
Goodwill	**65,435**	59,674
	$ 2,210,581	$ 1,986,999

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings *(Note 7)*	**$ 104,452**	$ 157,190
Accounts payable and accrued charges	**153,566**	145,236
Current installments of long-term debt *(Note 8)*	**38,197**	24,379
Subscription Receipts issue *(Note 22)*	**350,205**	–
Restricted cash – Subscription Receipts issue *(Note 22)*	**(350,205)**	–
Future income taxes *(Note 15)*	**1,062**	7,662
	297,277	334,467
Long-term debt *(Note 8)*	**1,031,358**	940,910
Deferred credits *(Note 9)*	**65,668**	61,464
Future income taxes *(Note 15)*	**41,851**	24,360
Non-controlling interest *(Note 10)*	**36,770**	39,955
	1,472,924	1,401,156
Shareholders' Equity		
Common shares *(Note 11)*	**329,660**	320,229
Preference shares *(Note 11)*	**122,992**	–
Contributed surplus *(Note 12)*	**862**	220
Equity portion of convertible debentures *(Note 8)*	**1,672**	1,390
Foreign currency translation adjustment *(Note 14)*	**(12,515)**	6,228
Retained earnings	**294,986**	257,776
	737,657	585,843
	$ 2,210,581	$ 1,986,999

Commitments *(Note 22)*
Contingent liabilities *(Note 23)*
Subsequent event *(Note 24)*

See accompanying notes to consolidated financial statements

Approved on Behalf of the Board

Angus A. Bruneau, Director

C. Bruce Chafe, Director

Consolidated Statements of Earnings

FORTIS INC.

For the Years Ended December 31 (in thousands, except per share amounts)

	2003	2002
Operating Revenues	$ 843,080	$ 715,465
Expenses		
Operating	579,511	476,969
Amortization	62,327	65,063
	641,838	542,032
Operating Income	201,242	173,433
Finance Charges *(Note 13)*	81,555	73,464
Earnings Before Income Taxes	119,687	99,969
Income taxes *(Note 15)*	38,236	32,488
Earnings Before Non-Controlling Interest	81,451	67,481
Non-controlling interest	3,869	4,229
Earnings	77,582	63,252
Dividends on preference shares	3,952	–
Earnings Applicable to Common Shares	$ 73,630	$ 63,252
Average Common Shares Outstanding *(Note 11)*	17,309	16,277
Earnings Per Common Share *(Note 11)*		
Basic	$4.25	$3.89
Diluted	$4.10	$3.85

Consolidated Statements of Retained Earnings

FORTIS INC.

For the Years Ended December 31 (in thousands)

	2003	2002
Balance at Beginning of Year	$ 257,776	$ 227,699
Earnings Applicable to Common Shares	73,630	63,252
	331,406	290,951
Dividends on Common Shares	(36,420)	(33,175)
Balance at End of Year	$ 294,986	$ 257,776

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

FORTIS INC.

For the Years Ended December 31 (in thousands)

	2003	2002
Operating Activities		
Earnings before non-controlling interest	$ 81,451	$ 67,481
Items not Affecting Cash		
Amortization – capital assets	55,988	60,783
Amortization – intangibles	3,684	1,815
Amortization – other	2,655	2,465
Future income taxes	5,127	3,248
Accrued employee future benefits	(4,477)	(7,790)
Equity income – net of dividends	(2,922)	–
Stock-based compensation	642	220
Other	1,959	705
	144,107	128,927
Change in non-cash operating working capital	16,527	5,185
Cash from Continuing Operations	160,634	134,112
Cash from Discontinued Operations	–	310
	160,634	134,422
Investing Activities		
Change in deferred charges and credits	(19,486)	(4,522)
Purchase of utility capital assets	(159,843)	(156,158)
Purchase of income producing properties	(47,897)	(72,672)
Proceeds on sale of utility capital assets	1,204	34
Business acquisitions, net of cash acquired	(10,955)	(103,130)
Increase in investments	(71,029)	(12,276)
	(308,006)	(348,724)
Financing Activities		
Change in short-term borrowings	(50,934)	28,053
Subscription Receipts issue	350,205	–
Restricted cash – Subscription Receipts issue	(350,205)	–
Proceeds from long-term debt, net of cash held in escrow	194,729	218,420
Repayment of long-term debt	(48,885)	(44,844)
Contributions in aid of construction	4,231	5,661
Redemption of preference shares	–	(50,000)
Advances from non-controlling interest	1,578	1,670
Issue of common shares	9,431	102,083
Issue of preference shares	121,861	–
Dividends		
Common shares	(36,420)	(33,175)
Preference shares	(3,952)	–
Subsidiary dividends paid to non-controlling interest	(2,036)	(1,895)
	189,603	225,973
Effect of exchange rate changes on cash	(3,395)	302
Change in Cash and Cash Equivalents	38,836	11,973
Cash and Cash Equivalents, Beginning of Year	26,258	14,285
Cash and Cash Equivalents, End of Year	$ 65,094	$ 26,258

See accompanying notes to consolidated financial statements

1. Description of the Business

Nature of Operations

Fortis Inc. ("Fortis" or the "Corporation") is primarily a diversified electric utility holding company. Fortis segments its utility operations by franchise area and, depending on regulatory requirements, by the nature of the assets. Fortis also holds investments in commercial real estate and hotel properties and treats them as a separate segment. The operating segments allow senior management to evaluate the operational performance and assess the overall contribution of each segment to the Corporation's long-term objectives.

The following summary briefly describes the operations included in each of the Corporation's operating and reportable segments.

Newfoundland Power: Newfoundland Power is the principal distributor of electricity in Newfoundland.

FortisOntario: FortisOntario Inc. ("FortisOntario"), the successor to Canadian Niagara Power Company, Limited and Cornwall District Heating Limited, owns and operates the 75-megawatt ("MW") Rankine Generating Station in Niagara Falls, Ontario and a 5-MW gas-fired cogeneration plant in Cornwall, Ontario and includes the operations of Canadian Niagara Power Inc. ("Canadian Niagara Power"), Cornwall Street Railway, Light and Power Company, Limited ("Cornwall Electric") and the operating subsidiaries of Granite Power Corporation ("Granite Power"). Included in Canadian Niagara Power's accounts is the electricity distribution business of Port Colborne Hydro Inc. ("Port Colborne Hydro"), which has been leased from the City of Port Colborne under a 10-year lease agreement entered into in April 2002. Fortis acquired the remaining 50% interest in Canadian Niagara Power Company, Limited, including Canadian Niagara Power, on July 1, 2002, and on October 17, 2002 the Corporation acquired a 100% interest in Cornwall Electric. Fortis' initial 50% interest in Canadian Niagara Power Company, Limited is reported on a proportionate consolidation basis up to July 1, 2002. On April 1, 2003, FortisOntario acquired the operating subsidiaries of Granite Power Corporation ("Granite Power"). Granite Power now includes the operations of the Rideau Falls Limited Partnership ("Rideau Falls"), a 2-MW hydroelectric generating station in the City of Ottawa, which was acquired in the fourth quarter of 2003. Collectively, Fortis' investments in Ontario, referred to as FortisOntario, provide an integrated electric utility service to customers in Fort Erie, Cornwall, Gananoque and Port Colborne.

Maritime Electric: Maritime Electric is the principal distributor of electricity in the Province of Prince Edward Island. The operations of 4 hydroelectric generating stations in upper New York State, conducted through FortisUS Energy, are also included in this segment.

Belize Electricity: Belize Electricity is the principal distributor of electricity in Belize, Central America.

Belize Electric ("BECOL"): BECOL consists of the operations of the 25-MW Mollejon hydroelectric facility in Belize. BECOL sells all of its electricity output to Belize Electricity.

Fortis Properties: Fortis Properties includes the operations of commercial real estate and hotel properties in Atlantic Canada and Ontario.

Corporate: Corporate includes finance costs associated with corporate debt, preference share dividends and other corporate expenses net of recoveries from subsidiaries, interest and miscellaneous revenues and related income taxes. This segment also includes the Corporation's investment in Caribbean Utilities Company, Ltd. ("Caribbean Utilities") and its interest in the Exploits River Hydro Partnership ("Exploits Partnership"). Effective January 30, 2003, the Corporation acquired an additional 15.9% of the outstanding Class A Ordinary Shares of Caribbean Utilities, which increases the Corporation's holding to approximately 38%.

Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands. The Corporation accounts for this investment on the equity basis of accounting.

The Exploits Partnership, a partnership between the Corporation and Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"), was established to develop, install and operate additional capacity at 2 of Abitibi-Consolidated's hydroelectric plants in central Newfoundland. The Corporation holds a 51% interest in the Partnership and Abitibi-Consolidated holds the remaining 49% interest. The Exploits Partnership commenced operations in November 2003.

Fortis has also entered into agreements to acquire all of the shares of Aquila Networks Canada (Alberta) Ltd. (the "Alberta Utility") and Aquila Networks Canada (British Columbia) Ltd. (the "British Columbia Utility"). The closing of

1. Description of the Business (cont'd)

the transaction is subject to fulfillment of customary conditions, including receipt of required regulatory approvals, and is expected to close in the first half of 2004. On a consolidated basis, the Alberta Utility and the British Columbia Utility provide electricity to more than 525,000 customers primarily in southern and central Alberta and southern British Columbia. As of December 31, 2002, the Alberta Utility and the British Columbia Utility had an aggregate of $1.3 billion in assets, a regulatory rate base of approximately $943 million and approximately 1,200 employees.

Regulation

Newfoundland Power is regulated by the Board of Commissioners of Public Utilities of Newfoundland and Labrador ("PUB"). Newfoundland Power operates under cost of service regulation as prescribed by the PUB. Earnings are regulated on the basis of rate of return on rate base. Accounting policies conform to Canadian generally accepted accounting principles ("GAAP") and to accounting requirements established from time to time by the PUB.

During 2003, Maritime Electric operated under the provisions of the *Maritime Electric Company Limited Regulation Act (1994) ("Regulation Act")*, which governed the rates charged for electricity and ancillary services. Base electricity rates charged to customers were set at 110% of rates charged by New Brunswick Power ("NB Power") for comparable services in New Brunswick. Adjustments to base electricity rates as a result of legislative changes to the *Regulation Act* enabled Maritime Electric to recover from/return to customers 90% of energy-related costs above/below $0.05/kWh. In 2003, 90% of energy costs above $0.05/kWh totalled $17.3 million (2002 – $17.2 million). The *Regulation Act* further stipulated that Maritime Electric be allowed to recover from/return to customers a Cost of Capital Adjustment based on an 11% target return on average common equity. The *Regulation Act* also included service reliability requirements related to the power system on Prince Edward Island. At December 31, 2003, Maritime Electric was in compliance with both the required minimum equity component of its capital requirement and the system reliability requirement.

Effective January 1, 2004, the Government of Prince Edward Island proclaimed legislation to return Maritime Electric to a traditional cost of service regulatory model. Maritime Electric's base electricity rates, which since 1994 have been based on 110% of NB Power's rates, will be based on actual costs. The legislation, which provides for an orderly transition from the existing regulatory model, allows the Company to collect costs incurred on behalf of the customer until December 31, 2003 under terms and conditions to be set out by the Island Regulatory and Appeals Commission.

FortisUS Energy operates under a license from the U.S. Federal Energy Regulatory Commission.

Canadian Niagara Power, Cornwall Electric and Granite Power operate under the *Electricity Act (Ontario)* and the *Ontario Energy Board Act (Ontario)*. Cornwall Electric has been given legislative exemption from many aspects of these Acts. Cornwall Electric is subject to a 35-year Franchise Agreement signed with the City of Cornwall, dated July 31, 1998.

Belize Electricity operates under the *Electricity Act (Belize)* and is monitored by the Public Utilities Commission of Belize ("PUC").

BECOL operates under a Franchise Agreement with the Government of Belize and a Power Purchase Agreement between the Government of Belize and Belize Electricity.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian GAAP except as required by utility regulators. The timing of the recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using Canadian GAAP for non-regulated entities. The Corporation's accounting policies and its financial disclosures in respect of its real estate operations are also substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies ("CIPREC").

All amounts presented are in Canadian dollars unless otherwise stated.

2. Summary of Significant Accounting Policies (cont'd)

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term deposits with maturities of 3 months or less.

Materials and Supplies

Materials and supplies are recorded at average cost.

Deferred Charges

Deferred charges, including the capital charge on Point Lepreau, are recorded at cost and are amortized over their estimated useful lives.

Utility Capital Assets and Income Producing Properties

Utility capital assets of Newfoundland Power are stated at values approved by the PUB as at June 30, 1966 with subsequent additions at cost. Capital assets of all other utility operations are stated at cost. The cost of utility capital assets retired, less net salvage, is charged to accumulated amortization. Maintenance and repairs are charged to operations while renewals and betterments are capitalized. On certain construction projects, interest is capitalized and included as a cost in the appropriate accounts until the asset is available for use.

Amortization on utility capital assets is provided on a straight-line method based on the estimated service life of capital assets. Amortization rates range from 2.0% to 10.0%. The composite rate of amortization before reduction for amortization of contributions in aid of construction is 3.3% (2002 – 3.6%).

Income producing properties, which include office buildings, shopping malls, hotels and land, are recorded at cost. As of December 31, 2003, Fortis Properties amortized income producing buildings by the sinking fund method using an imputed interest rate of 6.0% over the estimated useful life of 60 years from date of acquisition. Fortis Properties amortizes tenant inducements over the initial term of the lease to which they relate, except where a write-down is required to reflect permanent impairment. The lease terms vary to a maximum of 20 years.

Effective January 1, 2004, new recommendations by the Canadian Institute of Chartered Accountants ("CICA") effectively eliminate certain industry-specific accounting practices which previously qualified as generally accepted accounting principles. Fortis Properties is assessing its depreciation accounting policy to comply with these new recommendations and as required under the recommendations, any change will be adopted prospectively with no restatement of prior period amounts.

Amortization of capital construction projects and related equipment commences when the projects have been substantially completed. Equipment is recorded at cost and is amortized on a straight-line basis over a range of 1 year to 15 years.

Investments

Portfolio investments are accounted for on the cost basis of accounting. Declines in value considered to be other than temporary are recorded in the period in which such determination is made.

Effective January 30, 2003, the Corporation commenced accounting for its investment in Caribbean Utilities on the equity basis. Prior to January 30, 2003, the Corporation accounted for this investment on the cost basis of accounting, including in its results only dividend income received.

Goodwill

Goodwill represents the excess at the dates of acquisition of the purchase price over the fair values of the net amounts assigned to individual assets acquired and liabilities assumed relating to business acquisitions. In accordance with the CICA recommendations, goodwill is no longer amortized. The Corporation is required to perform an annual impairment test and any impairment provision is charged to income. In addition to the annual impairment test, the Corporation also performs an impairment test if any event occurs or if circumstances change that would indicate that the fair value of a reporting unit was below its carrying value. No goodwill impairment provision has been determined for the year ended December 31, 2003 (2002 – nil).

Intangibles

Intangibles represent the estimated fair value of water rights acquired upon the acquisition of the remaining 50% of Canadian Niagara Power Company, Limited. The water rights are being amortized on a sinking fund basis using an imputed interest rate of 12.5% over the life of the water rights. The total accumulated amortization as of December 31, 2003 was $5.5 million (2002 – $1.8 million).

2. Summary of Significant Accounting Policies (cont'd)

The Corporation evaluates the carrying value of intangibles for potential impairment through ongoing review and analysis of fair market value and expected earnings. Should a permanent impairment in the value of intangibles be identified, it will be written off against earnings in the period such impairment is recognized.

Employee Future Benefits

The Corporation maintains defined benefit and defined contribution pension plans and group registered retirement savings plans ("RRSPs") for its employees. The pension costs of the defined benefit plans are actuarially determined using the projected benefits method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement of employees. With the exception of Newfoundland Power, pension plan assets are valued at fair value. The excess of any cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is deferred and amortized over the average remaining service period of active employees, except for early retirement offerings at Newfoundland Power, which are being amortized on a straight-line basis over 10 years in accordance with the requirements of the PUB. The costs of the defined contribution pension plans and group RRSPs are expensed as incurred.

At Newfoundland Power, the plan assets are valued using the market-related method for valuing assets. In the previous year, plan assets were valued at fair value. As a result, the annual pension expense decreased by approximately $1.5 million in 2003. The PUB has ordered that this change be accounted for prospectively effective January 1, 2003.

At Newfoundland Power, with the adoption of the recommendations of Section 3461 of the CICA Handbook on January 1, 2000, a one-time transitional obligation of $23.2 million was created to record the difference between the surplus in the plan and the deferred pension asset recorded as of December 31, 1999. This transitional obligation is being amortized on a straight-line basis over 18 years.

The Corporation also offers other non-pension post-retirement benefits to employees through defined benefit plans. The costs associated with these other future benefits are actuarially determined using the projected benefits method prorated on service and best estimate assumptions, except for such costs incurred by Newfoundland Power which, in accordance with regulatory requirements, are expensed in the year incurred.

Contributions in Aid of Construction

Contributions represent the cost of utility capital assets contributed by customers and governments. These accounts are being reduced annually by an amount equal to the charge for amortization provided on the related assets.

Stock-based Compensation

The Corporation accounts for its grants under such stock-based plans using the fair value method and the compensation expense is amortized over the vesting period of the options. The amount of the stock-based compensation expense recorded in the financial statements for the year ended December 31, 2003 was $0.6 million (December 31, 2002 – $0.2 million).

Foreign Currency Translation

The assets and liabilities of foreign operations, all of which are self-sustaining, are translated at the exchange rates in effect at the balance sheet dates. The resulting unrealized translation gains and losses are accumulated as a separate component of common shareholders' equity under the foreign currency translation adjustment heading. Revenue and expense items are translated at the average exchange rate for the year.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the balance sheet date. Revenue and expense items denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the transaction date. Gains and losses on translation are included in the statement of earnings.

Income Taxes

Except as modified and described below for Newfoundland Power, the Corporation and its subsidiaries follow the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for differences between the tax and accounting bases of assets and liabilities as well as for the benefit of

2. Summary of Significant Accounting Policies (cont'd)

losses available to be carried forward to future years for tax purposes that are likely to be realized. The future income tax assets and liabilities are measured using the enacted and substantively enacted tax rates and laws that will be in effect when the differences are expected to be recovered or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs. Current income tax expense is recognized for the estimated income taxes payable in the current year.

The PUB specifies Newfoundland Power's method of accounting for income taxes. The PUB has disallowed the recognition of future income taxes on differences between the tax and accounting bases prior to January 1, 1981 relating to depreciable assets. If the full asset and liability method were applied to Newfoundland Power's depreciable asset base, the future income tax liability would have increased by $83.7 million at December 31, 2003 (December 31, 2002 – $79.5 million).

Revenue Recognition

Revenue from the sale of electricity by Newfoundland Power and Belize Electricity is recognized on billings rendered to customers monthly as required by utility regulatory authorities. Revenue from the sale of electricity by Maritime Electric, BECOL and FortisOntario is recognized on the accrual basis.

Real estate revenue is derived from leasing retail and office space to tenants for varying periods of time. The leases are primarily of a net nature with tenants paying basic rental plus a pro rata share of defined overhead expenses. Certain retail tenants pay additional rent based on a percentage of the tenant's sales. Expenses recovered from tenants are recorded as revenue. Hospitality revenue is recognized when the service is provided.

Regulatory Accounts

The PUB has ordered provision of a weather normalization account for Newfoundland Power to adjust for the effect of variations in weather and stream-flow when compared to long-term averages. The balance in the weather normalization account is subject to annual approval by the PUB. In 2003, the PUB approved the amortization of $5.6 million of the balance in the account over a 5-year period commencing January 1, 2003.

Belize Electricity and the PUC have established a Cost of Power Rate Stabilization Account ("CPRSA") to allow recovery of excess energy costs over an established benchmark. These amounts are recovered as a surcharge on base rates over a 4-year period and have been included in other receivables.

Belize Electricity and the PUC have established a Hurricane Cost of Power Rate Stabilization Account ("HCRSA"). Through the HCRSA, Belize Electricity is allowed to recover hurricane reconstruction costs as a surcharge on base rates over a 3-year period and these amounts have been included in other receivables.

FortisOntario maintains variance accounts in its regulated subsidiaries to adjust for the effect of cost of power and related costs above or below associated amounts billed to consumers at approved rates. Rates are adjusted in subsequent periods to offset these variances. The variance accounts have been included in accounts receivable.

As of December 31, 2003, Maritime Electric maintained an energy cost adjustment mechanism to adjust for the effect of variations in energy costs above or below $0.05/kWh. Maritime Electric also maintained a cost of capital adjustment account to adjust earnings based on a target return on average common equity. The new legislation effective January 1, 2004 allows Maritime Electric to collect these costs under the terms and conditions to be set out by the Island Regulatory and Appeals Commission and, as a result, these costs have been included in other receivables.

Use of Accounting Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

3. Deferred Charges

(in thousands)	**2003**	2002
Deferred pension costs	**$ 75,105**	$ 67,986
Weather normalization account *(Note 21)*	**10,435**	10,919
Unamortized debt discount and expenses	**10,703**	8,711
Capital charge – Point Lepreau	**3,922**	4,482
Deferred acquisition costs *(Note 22)*	**12,674**	–
Deferred recoverable and project costs	**6,003**	2,017
Other	**4,362**	4,818
	$ 123,204	$ 98,933

4. Utility Capital Assets

(in thousands)	**2003**	2002
Capital assets	**$ 1,908,561**	$ 1,811,083
Assets under construction	**48,791**	93,727
Accumulated amortization	**(681,479)**	(687,968)
	$ 1,275,873	$ 1,216,842

5. Income Producing Properties

(in thousands)	**2003**	2002
Land, buildings and tenant inducements	**$ 364,473**	$ 316,576
Accumulated amortization	**(30,869)**	(27,129)
	$ 333,604	$ 289,447

6. Investments

(in thousands)	**2003**	2002
Caribbean Utilities	**$ 165,217**	$ 93,223
Other investments	**2,535**	2,528
	$ 167,752	$ 95,751

At December 31, 2003, the quoted market value of the Corporation's interest in Caribbean Utilities was $166.3 million (December 31, 2002 – $102.7 million).

7. Short-term Borrowings

The credit facilities of the Corporation and its subsidiaries, consisting of bankers' acceptances and demand loans issued against unsecured bank lines of credit, bear interest at rates ranging from 3.0% to 5.0% at December 31, 2003 (December 31, 2002 – 2.1% to 4.8%). The Corporation and its subsidiaries had authorized lines of credit of $314 million, of which $210 million was unused at year end. The Corporation has issued $16 million in letters of credit as at December 31, 2003 (December 31, 2002 – $5.6 million).

8. Long-term Debt

(in thousands)	2003	2002
Fortis		
7.40% Senior Unsecured Debentures, due 2010	$ 100,000	$ 100,000
US$10 million, 6.75% Unsecured Subordinated Convertible Debentures, due 2012	12,031	14,386
US$10 million, 5.50% Unsecured Subordinated Convertible Debentures, due 2013	12,467	–
	124,498	114,386
Exploits Partnership		
Construction and term loan, due 2028	65,000	51,900
FortisOntario		
Term loan, due 2007	30,100	27,000
7.092% Senior Unsecured Notes, due 2018	30,000	–
7.092% Senior Unsecured Notes, due 2018	22,000	–
	82,100	27,000
Newfoundland Power		
First mortgage sinking fund bonds:		
11.875% Series AC, due 2007	33,070	33,470
10.550% Series AD, due 2014	32,953	33,353
10.900% Series AE, due 2016	35,200	35,600
9.000% Series AG, due 2020	36,400	36,800
10.125% Series AF, due 2022	35,600	36,000
8.900% Series AH, due 2026	37,235	37,635
6.800% Series AI, due 2028	47,500	48,000
7.520% Series AJ, due 2032	74,250	75,000
	332,208	335,858
Maritime Electric		
First mortgage bonds:		
12.000% due 2010	15,000	15,000
11.500% due 2016	12,000	12,000
8.550% due 2018	15,000	15,000
7.570% due 2025	15,000	15,000
8.625% due 2027	15,000	15,000
8.920% due 2031	20,000	20,000
	92,000	92,000

8. Long-term Debt (cont'd)

(in thousands)	2003	2002
Fortis Properties		
6.850% First mortgage, due 2007	5,163	5,302
8.150% First mortgage, due 2010	18,197	18,939
9.470% First mortgage, due 2010	11,721	11,956
7.420% First mortgage bonds, due 2012	27,930	28,624
7.770% First mortgage bonds, due 2012	22,929	23,400
7.300% First mortgage, due 2013	29,953	–
6.580% First mortgage, due 2013	34,830	–
7.500% First mortgage bonds, due 2017	44,761	45,802
7.320% Senior secured notes, due 2019	20,108	20,820
Obligations under capital leases	6,864	8,218
Non-interest bearing note payable, secured by letter of credit, due 2006	1,282	1,711
6.823% First mortgage	–	22,843
	223,738	187,615
BECOL		
Term loan, due 2011 (US$39.8M)	51,556	67,481
Belize Electricity		
Caterpillar Financial Services Corporation, due 2004 (BZ$0.6M)	384	969
6.75% unsecured term loan, due 2006 (BZ$2.8M)	1,790	2,967
12.0% fixed rate unsecured debentures, due 2012 (BZ$17.0M)	11,046	13,462
9.5% fixed rate unsecured debentures, due 2021 (BZ$19.5M)	12,637	15,403
10.0% fixed rate unsecured debentures, due 2022 (BZ$12.8M)	8,299	1,422
Caribbean Development Bank ("CDB") (BZ$21.6M)	13,991	18,760
European Investment Bank ("EIB") (euro 3.7M)	4,350	4,738
First Caribbean International Bank ("FC") (BZ$9.1M)	5,899	–
International Bank for Reconstruction and Development ("IBRD") (BZ$15.5M)	10,078	14,463
M&T All-First Bank ("AFB") (BZ$5.8M)	3,780	6,157
Belize Bank Limited ("BBL") (BZ$3.0M)	1,945	3,944
RBTT Merchant Bank ("RBTT") (BZ$28.2M)	18,275	2,557
Toronto Dominion Bank ("TDB") (BZ$9.3M)	5,981	4,024
Other loans	–	183
	98,455	89,049
	1,069,555	965,289
Less: Current installments	38,197	24,379
	$ 1,031,358	$ 940,910

8. *Long-term Debt (cont'd)*

Fortis

The Senior Unsecured Debentures are redeemable at the option of the Corporation at a price calculated as the greater of the principal amount to be redeemed and the amount equal to the net present value of interest and principal based on the Canada Yield plus a premium ranging from 0.43% to 0.87% together with accrued and unpaid interest thereon. There are also stated limitations for additional borrowings, dividend payments, share distributions and redemptions and the prepayment of subordinated debt. The Corporation has entered into a US dollar currency swap under which the interest payments on the Senior Unsecured Debentures have been converted into US dollar interest payments. At December 31, 2003, there was an unrecognized gain of US$4.0 million (December 31, 2002 – US$2.9 million loss) on the swap. The change in the market value of the US dollar currency swap contract, which will fluctuate over time, is not recognized until future interest payments are made. Therefore, the change in market value of this contract at year end has not been recognized in these consolidated financial statements.

The 6.75% Unsecured Subordinated Convertible Debentures are redeemable by the Corporation at par at any time on or after March 12, 2007, and are convertible, at the option of the holder, into the Corporation's Common Shares at US$36.74 per share. The Debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the Debentures.

The 5.50% Unsecured Subordinated Convertible Debentures are redeemable by the Corporation at par at any time on or after May 20, 2008, and are convertible, at the option of the holder, into the Corporation's Common Shares at US$47.86 per share. The debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the Debentures.

The Unsecured Subordinated Convertible Debentures are being accounted for in accordance with their substance and are presented in the financial statements in their component parts. The liability and equity components are classified separately on the balance sheet and are measured at their respective fair values at the time of issue.

In December 2003, Fortis entered into a forward interest rate swap agreement that will swap 90-day bankers' acceptance interest rate payments on $200 million of long-term debt to 5.6%. The swap agreement has been designated as a hedge against the planned issuance of long-term debt associated with the acquisition of Aquila, Inc.'s Canadian utilities and will be terminated when the new debt is issued, which is expected by late 2004. The cash payment received or paid on the termination of this agreement will be amortized over the term of the new debt, effectively setting the rate at approximately 5.6% plus credit spread. At December 31, 2003, there was an unrecognized loss of $2.8 million on the swap.

Exploits Partnership

The Exploits Partnership non-recourse construction and 25-year amortizing term loan bears interest at 7.55%. At December 31, 2003, the Partnership had drawn the full balance on the loan and held cash in escrow of $3.8 million, which represented cash received in advance of completion of specific capital construction costs. A first, fixed and specific charge and security interest over all the assets of the Partnership and assignment of various agreements have been provided as security. The term loan matures in 2028.

FortisOntario

The FortisOntario term loan is secured by a general security agreement covering all the generating assets of the Company and a collateral mortgage on real property.

FortisOntario is party to an interest rate swap contract maturing April 30, 2005 to hedge against interest exposures on $20.0 million of indebtedness. The contract has the effect of fixing the rate of interest at 8.52% on $20.0 million of the $30.1 million term loan. The remaining $10.1 million of the term loan bears interest at a floating rate of bankers' acceptance plus 2.25%.

The interest rate swap contract is accounted for as a hedge against the long-term debt. At December 31, 2003, there was an unrecognized loss of $1.0 million (December 31, 2002 – $1.4 million loss) on the interest rate swap contract. The change in the market value of the interest rate swap contract, which will fluctuate over time, is not recognized until future interest payments are made. Therefore, the change in market value of this contract at year end has not been recognized in these consolidated financial statements.

8. Long-term Debt (cont'd)

On August 14, 2003, Canadian Niagara Power and Cornwall Electric, both regulated subsidiaries of FortisOntario, issued 7.092% Unsecured Notes due 2018 totalling $30 million and $22 million, respectively.

Newfoundland Power and Maritime Electric

The Newfoundland Power and Maritime Electric first mortgage bonds are secured by a first fixed and specific charge on the respective utility's capital assets owned or to be acquired and by a floating charge on all other assets.

Fortis Properties

The Fortis Properties first mortgage bonds are secured by a fixed and floating charge on specific income producing properties. The senior secured notes are collateralized by a first fixed and specific mortgage and a charge on a specific income producing property. The first mortgages are secured by specific income producing properties.

BECOL

The BECOL term loan is secured by agreements covering all its property assets and undertakings. BECOL is party to an interest rate swap contract maturing on September 30, 2011 to hedge against interest exposures on the term loan. The contract has the effect of fixing the rate of interest at 9.45% on the indebtedness.

The interest rate swap is accounted for as a hedge against the long-term debt. At December 31, 2003, there was an unrecognized loss of US$3.5 million (December 31, 2002 – US$4.5 million loss) on the interest rate swap contract. The change in the market value of the interest rate swap contract, which will fluctuate over time, is not recognized until future interest payments are made. Therefore, the change in market value of this contract at year end has not been recognized in these consolidated financial statements.

Belize Electricity

The 12.0% fixed rate debentures can be called by Belize Electricity at any time until maturity by giving the holders not more than 60 days' nor less than 30 days' written notice, and are repayable at the option of the holders at any time by giving 12 months' written notice to Belize Electricity. Redemption by agreement between Belize Electricity and the debenture holders at any time is also allowed.

The 9.5% fixed rate debentures can be called by Belize Electricity at any time after April 30, 2008 until maturity by giving holders not more than 60 days' nor less than 30 days' written notice, and are repayable at the option of the holders at any time on or after April 30, 2008 by giving 12 months' written notice to Belize Electricity. Redemption by agreement between Belize Electricity and the debenture holders at any time is also allowed.

The 10.0% fixed rate debentures can be called by Belize Electricity at any time after August 31, 2009 until maturity by giving holders not more than 60 days' nor less than 30 days' written notice, and are repayable at the option of the holders at any time on or after August 31, 2009 by giving 12 months' written notice to Belize Electricity. Redemption by agreement between Belize Electricity and the debenture holders at any time is also allowed.

The CDB loans bear interest at rates ranging from 2.0% to 8.5% and mature from 2004 to 2014.

The EIB loans bear interest at 5.0% and mature in 2014.

The FC loan bears interest at 10.5% and matures in 2008.

The $10.1 million IBRD loan bears interest at 0.5% per annum above the bank's Cost of Qualified Borrowings as defined in the loan agreement and matures in 2011. The effective rate of interest as of December 31, 2003 was 7.16% per annum. As of December 31, 2003, Belize Electricity was not in compliance with the debt service ratio of 1.5 times as required by the loan covenant. At December 31, 2003, Belize Electricity's debt service ratio was 1.29 times. The IBRD acknowledged the non-compliance and encouraged Belize Electricity to continue to improve its debt service ratio.

The AFB loan bears interest at 4.95% and matures in 2006.

The BBL unsecured demand loan bears interest at 13.0% and matures in 2004.

8. Long-term Debt (cont'd)

The RBTT construction and term loan bears interest at rates ranging from 5.75% to 8.15% and matures in 2012. The loan is secured by a debenture over specific assets of Belize Electricity.

The TDB loan bears interest at 5.75% and matures in 2009.

The loans contain various negative and positive covenants by Belize Electricity or the Government of Belize regarding future action by Belize Electricity or the Government of Belize. They also contain various events of default, in the event of which the loan becomes due and payable.

Repayment of long-term debt

The consolidated annual requirements to meet principal repayments and maturities in each of the next 5 years are as follows:

2004	$38.2 million
2005	$38.5 million
2006	$39.0 million
2007	$70.0 million
2008	$31.2 million

Fair Values

While the Corporation's liability with respect to long-term debt is $1,070 million (December 31, 2002 – $967 million), the estimated fair value of the long-term debt is $1,177 million at December 31, 2003 (December 31, 2002 – $1,015 million). Fair value is estimated using present value techniques based on borrowing rates at year end for debt with similar terms and maturities. Since the Corporation does not intend to settle the debt prior to maturity, the fair value estimate does not represent an actual liability and therefore does not include exchange or settlement costs.

9. Deferred Credits

(in thousands)	**2003**	2002
Contributions in aid of construction	**$ 46,784**	$ 45,889
Post-retirement benefits	**17,073**	14,475
Other	**1,811**	1,100
	$ 65,668	$ 61,464

10. Non-controlling Interest

The non-controlling interest at December 31, 2003 consists of the non-controlling interest in the net assets of Belize Electricity, BECOL, Exploits Partnership and preference shares of Newfoundland Power as follows:

(in thousands)	**2003**	2002
Belize Electricity	**$ 25,397**	$ 27,697
BECOL	**2,304**	2,561
Exploits Partnership	**1,845**	1,507
Preference shares of Newfoundland Power	**7,224**	8,190
	$ 36,770	$ 39,955

11. Capital Stock

Authorized

(a) an unlimited number of Common Shares, without nominal or par value;

(b) an unlimited number of First Preference Shares, without nominal or par value; and

(c) an unlimited number of Second Preference Shares, without nominal or par value.

Issued and Outstanding

(in thousands)	**2003**	2002
17,380,419 Common Shares (2002 – 17,192,064)	**$ 329,660**	$ 320,229
5,000,000 Preference Shares, Series C	**$ 122,992**	$ –

Common Shares were issued for cash as follows:

	2003		2002	
	Number of Shares	**Amount *(in thousands)***	Number of Shares	Amount *(in thousands)*
Opening balance	**17,192,064**	**$ 320,229**	14,980,507	$ 216,440
Share issuance	**–**	**–**	2,000,000	95,157
Consumer Share Purchase Plan	**24,912**	**1,403**	30,503	1,480
Dividend Reinvestment Plan	**48,342**	**2,743**	37,976	1,844
Employee Share Purchase Plan	**29,305**	**1,621**	27,130	1,311
Director Stock Option Plan	**30,750**	**1,241**	45,000	1,722
Executive Stock Option Plan	**55,046**	**2,423**	70,948	2,275
	17,380,419	**$ 329,660**	17,192,064	$ 320,229

Preference Shares

On June 3, 2003, Fortis completed the issuance of 5,000,000 cumulative redeemable convertible First Preference Shares, Series C ("Preference Shares") for gross proceeds of $125 million. Net proceeds after tax effected issuance costs totalled $123 million. The Preference Shares are entitled to fixed cumulative preferential cash dividends at a rate of $1.3625 per share per annum. On or after June 1, 2010, the Corporation may, at its option, redeem for cash the Preference Shares, in whole at any time or in part from time to time, at $25.75 per share if redeemed before June 1, 2011, at $25.50 per share if redeemed on or after June 1, 2011 but before June 1, 2012, at $25.25 per share if redeemed on or after June 1, 2012 but before June 1, 2013 and at $25.00 per share if redeemed on or after June 1, 2013 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption.

On or after June 1, 2010, the Corporation may, at its option, convert all, or from time to time any part of the outstanding Preference Shares into fully-paid and freely tradeable common shares of the Corporation. The number of common shares into which each Preference Share may be so converted will be determined by dividing the then applicable redemption price per Preference Share, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95% of the then current market price of the common shares at such time. On or after September 1, 2013, each Preference Share will be convertible at the option of the holder on the third day of September, December, March and June of each year into that number of freely tradeable common shares determined by dividing $25.00, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95% of the then current market price of the common shares. If a holder of Preference Shares elects to convert any of such shares into common shares, the Corporation can redeem such Preference Shares for cash or arrange for the sale of those shares to substitute purchasers.

11. Capital Stock (cont'd)

Earnings per Common Share

The Corporation has calculated earnings per Common Share on the weighted average number of Common Shares outstanding of 17,308,850 and 16,277,201 in 2003 and 2002, respectively. Diluted earnings per Common Share are calculated using the treasury stock method for options and the "if-converted" method for subordinated convertible debentures and preference securities.

Earnings per Common Share are as follows:

	2003	2002
Basic	$ 4.25	$ 3.89
Diluted	$ 4.10	$ 3.85

	2003 Earnings (in thousands)	2003 Weighted Average Shares (#)	2003 Earnings per Common Share	2002 Earnings (in thousands)	2002 Weighted Average Shares (#)	2002 Earnings per Common Share
Earnings	$ 73,630			$ 63,252		
Weighted average shares outstanding		17,309			16,277	
Basic Earnings per Common Share	73,630	17,309	$ 4.25	63,252	16,277	$ 3.89
Effect of dilutive securities						
Stock options	–	138		–	69	
Preference Shares	3,952	1,330		–	–	
Convertible debentures	1,067	402		516	219	
Diluted Earnings per Common Share	$ 78,649	19,179	$ 4.10	$ 63,768	16,565	$ 3.85

12. Stock Options

The Corporation is authorized to grant certain key employees and directors of Fortis and its subsidiaries options to purchase Common Shares of the Corporation. At December 31, 2003, the Corporation had the following stock-based compensation plans: Executive Stock Option Plan, Directors' Stock Option Plan, 2002 Stock Option Plan and Employee Share Purchase Plan. The 2002 Stock Option Plan was adopted at the Annual and Special General Meeting on May 15, 2002 to ultimately replace the Executive and Directors' Stock Option Plans. The Executive and Directors' Stock Options Plans will cease to exist when all outstanding options are exercised or expire in or before 2011. At December 31, 2003, 1,953,549 common shares remained in the reserve for issue under the terms of the above plans.

Number of Options	2003	2002
Options outstanding at beginning of year	499,630	436,848
Granted	188,379	180,298
Exercised	(85,796)	(115,948)
Cancelled	–	(1,568)
Options outstanding at year end	602,213	499,630
Options vested at end of year	206,589	207,282
Weighted Average Exercise Prices:		
Outstanding at beginning of year	$ 41.86	$ 37.03
Granted	51.24	48.14
Exercised	42.72	34.52
Cancelled	–	38.27
Outstanding at end of year	44.67	41.86

12. Stock Options (cont'd)

Details of stock options outstanding are as follows:

Number of Options	Exercise Price	Expiry Date
45,254	$ 36.83	2004
32,341	29.15	2005
15,000	38.27	2006
141,691	38.27	2011
179,548	48.14	2012
188,379	51.24	2013
602,213		

Stock-based Compensation

On March 13, 2003, the Corporation issued 188,379 options on Common Shares under its 2002 Stock Option Plan with an exercise price based on the 5-day average trading price of $51.24. These options vest evenly over a 4-year period on each anniversary of the date of grant. The options expire 10 years after the date of grant. The fair market value of each option granted was $6.35 per option. The fair value was estimated on the date of grant using the Black-Scholes fair value option pricing model and the following assumptions:

Dividend yield (%)	4.16
Expected volatility (%)	13.30
Risk-free interest rate (%)	4.9
Weighted average expected life (years)	7.5

The Corporation has adopted a policy of recording compensation expense upon the issuance of stock options under its Stock Option Plans. Using the fair value method, the compensation expense is amortized over the 4-year vesting period of the options. Upon exercise, the proceeds of the option are credited to capital stock at the option price. Therefore, an exercise of options below the current market price has a dilutive effect on capital stock and shareholders' equity. Under the fair value method, compensation expense was $0.6 million for the year ended December 31, 2003 with an offsetting credit to contributed surplus.

13. Finance Charges

(in thousands)	**2003**	2002
Amortization of debt and stock issue expenses	**$ 426**	$ 313
Interest – long term debt	**85,383**	74,462
– other	**5,526**	2,764
Dividends on Preference Shares, Series B	**–**	2,736
Interest charged to construction	**(5,918)**	(4,514)
Interest earned	**(3,862)**	(2,297)
	$ 81,555	$ 73,464

14. Foreign Exchange Translation Adjustment

(in thousands)	**2003**	2002
Balance, beginning of year	**$ 6,228**	$ 5,380
Effect of exchange rate changes	**(18,743)**	848
Balance, end of year	**$ (12,515)**	$ 6,228

15. Income Taxes

The following is a reconciliation of the combined statutory income tax rate to the effective income tax rate:

(%)	2003	2002
Statutory income tax rate	**38.2**	40.2
Large corporations tax	**2.0**	2.1
Intangible amortization	**0.3**	0.7
Pension costs	**(2.5)**	(5.0)
Dividends on Preference Shares	**–**	1.2
Impact of change in tax rates on future income taxes	**0.7**	(0.4)
Difference between Canadian statutory rates and those applicable to foreign subsidiaries	**(5.8)**	(5.6)
Other	**(0.9)**	(0.7)
Effective income tax rate	**32.0**	32.5

The components of the provision for income taxes are as follows:

(in thousands)	2003	2002
Canadian		
Current taxes	**$ 31,697**	$ 26,910
Future income taxes	**4,555**	4,419
	36,252	31,329
Foreign		
Current taxes	**1,412**	1,159
Future income taxes	**572**	–
	1,984	1,159
Income tax expense	**$ 38,236**	$ 32,488

Future income taxes are provided for temporary differences. Future income tax assets and liabilities are comprised of the following:

(in thousands)	2003	2002
Future income tax liability (asset)		
Energy cost adjustment mechanism	**$ 7,923**	$ 7,950
Utility and income producing assets	**30,111**	16,578
Water rights	**8,107**	9,810
Employee future benefits	**(5,433)**	(4,129)
Share issue and debt financing costs	**(501)**	(1,164)
Deferred charges	**1,831**	1,724
Tenant inducements	**2,406**	2,803
Losses carried forward	**(4,065)**	(4,282)
Other	**2,534**	2,732
Future income tax liability	**42,913**	32,022
Current future income tax liability	**1,062**	7,662
Long-term future income tax liability	**41,851**	24,360
Future income tax liability	**$ 42,913**	$ 32,022

16. Employee Future Benefits

The pension costs of the defined benefit plans are actuarially determined using the projected benefits method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement of employees. With the exception of Newfoundland Power, pension plan assets are valued at fair value. The excess of any cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is deferred and amortized over the average remaining service period of active employees, except for early retirement offerings at Newfoundland Power, which are being amortized on a straight-line basis over 10 years in accordance with the requirements of the PUB.

	Pension Benefit Plans		Other Retirement Benefit Plans	
(in thousands)	**2003**	2002	**2003**	2002
Accrued benefit obligation				
Balance, beginning of year	**$ 183,188**	$ 167,614	**$ 17,596**	$ 13,142
Liability associated with 2002 acquisitions	**–**	8,937	**330**	3,744
Current service cost	**3,761**	3,523	**1,202**	577
Interest cost	**12,245**	11,338	**1,130**	871
Benefits paid	**(11,379)**	(11,338)	**(861)**	(968)
Actuarial losses	**8,661**	1,886	**128**	350
Curtailments	**–**	–	**–**	(120)
Plan amendments	**–**	1,228	**–**	–
Balance, end of year	**196,476**	183,188	**19,525**	17,596
Plan assets				
Fair value, beginning of year	**172,769**	171,600	**–**	–
Assets associated with 2002 acquisitions	**–**	9,584	**–**	–
Expected return on plan assets	**14,776**	14,080	**–**	–
Benefits paid	**(11,379)**	(11,338)	**(141)**	(141)
Actuarial gains (losses)	**8,639**	(24,409)	**–**	–
Contributions to plan	**12,009**	13,252	**141**	141
Fair value, end of year	**196,814**	172,769	**–**	–
Funded status – surplus (deficit)	**338**	(10,419)	**(19,525)**	(17,596)
Actuarial gains	**3,794**	1,819	**1,792**	2,107
Prior service costs	**–**	–	**410**	456
Unamortized amounts	**52,290**	56,581	**250**	558
Transitional assets	**18,683**	20,005	**–**	–
Accrued benefit asset (liability)	**$ 75,105**	$ 67,986	**$ (17,073)**	$ (14,475)
Significant assumptions used				
Discount rate at year end *(%)*	**6.50**	6.75	**6.25–6.5**	6.75–7.0
Expected long-term rate of return on plan assets *(%)*	**7.5–8.0**	7.5–8.0	**–**	–
Rate of compensation increase *(%)*	**4.0–4.5**	4.0–4.5	**–**	–
Average remaining service period of active employees *(years)*	**13–17**	17–20	**9–17**	13–18

16. Employee Future Benefits (cont'd)

(in thousands)	Pension Benefit Plans 2003	2002	Other Retirement Benefit Plans 2003	2002
Net benefit expense for the year				
Current service cost	**$ 2,753**	$ 2,285	**$ 1,202**	$ 577
Interest cost	**12,245**	11,338	**1,130**	871
Actuarial gains	**142**	–	**–**	119
Expected return on plan assets	**(15,130)**	(14,081)	**–**	–
Amortization of transitional obligation	**2,317**	924	**423**	340
Amortization of actuarial gains	**1,322**	2,550	**309**	224
Net benefit expense	**$ 3,649**	$ 3,016	**$ 3,064**	$ 2,131

17. Business Acquisitions

2003

Caribbean Utilities

On January 30, 2003, the Corporation acquired, through its wholly owned subsidiary, Fortis Energy (Bermuda) Ltd., an additional 3,863,695 Class A Ordinary Shares of Caribbean Utilities for a purchase price of $71 million. This acquisition represented approximately 16% of the outstanding Class A Ordinary Shares of Caribbean Utilities, which increased the Corporation's holding to approximately 38%. As a result, Fortis commenced accounting for its investment in Caribbean Utilities on an equity basis effective February 1, 2003. Previously, the Corporation accounted for this investment on a cost basis whereby only the dividends received from Caribbean Utilities were recorded in earnings.

Granite Power and Rideau Falls

On April 1, 2003, FortisOntario acquired Granite Power for $8.8 million. Granite Power consists primarily of Granite Power Distribution Corporation and Granite Power Generation Corporation. Granite Power distributes electricity to approximately 3,800 customers situated primarily in Gananoque, Ontario and generates electricity from 5 hydroelectric generating stations with a combined capacity of 6 MW. On October 1, 2003, Granite Power Generation purchased the management contract and 14 of 17 partnership units of the Rideau Falls Limited Partnership ("Rideau Falls"). On December 29, 2003, the remaining 3 partnership units were purchased. The total cumulative purchase price of Rideau Falls was $2.3 million. Rideau Falls operates a 2-MW hydroelectric generating station in the City of Ottawa. On December 31, 2003, the partnership units were dissolved and the assets were combined with Granite Power Generation. The acquisitions were accounted for using the purchase method whereby the results of operations have been included in the consolidated financial statements from the date of acquisition.

The purchase price allocation to net assets based on their fair values is as follows:

(in thousands)	
Fair value assigned to net assets:	
Utility capital assets	$ 10,952
Current assets	1,838
Long-term investments	9
Goodwill	4,084
Other assets	156
Current liabilities	(2,575)
Future income taxes	(3,179)
Other liabilities	(330)
	10,955
Cash	216
	$ 11,171

17. Business Acquisitions (cont'd)

Non-Utility

On October 1, 2003, Fortis Properties purchased assets comprising the businesses of 4 Holiday Inn hotels in Ontario for a cash consideration of $42.5 million. The acquisition was accounted for using the purchase method whereby the results of operations were consolidated from the date of the acquisition.

The purchase price allocation to net assets based on their fair values is as follows:

(in thousands)		
Fair value assigned to net assets:		
Income producing properties	$	43,073
Other assets		433
Other liabilities		(973)
	$	42,533

2002

Utility Aquisitions

In March and April 2002, the Corporation acquired an aggregate of 662,700 Class A Ordinary Shares of Caribbean Utilities for an aggregate purchase price of $12.9 million. As a result, the Corporation held approximately 22% of the outstanding Class A Ordinary Shares at December 31, 2002 and held a right of first offer on a further 31% of the utility's common shares.

In July 2002, the Corporation acquired the remaining 50% interest in Canadian Niagara Power Company, Limited, including Canadian Niagara Power, from National Grid USA for an aggregate cash purchase price of $35.2 million. Fortis purchased its initial 50% interest in the utility in October 1996. The acquisition is accounted for using the purchase method whereby the results of operations have been included in the consolidated financial statements commencing July 1, 2002. Prior to July 1, 2002, the Corporation had been proportionately consolidating its interest in Canadian Niagara Power Company, Limited.

In October 2002, the Corporation acquired a 100% interest in Cornwall Electric from Enbridge Energy Distribution Inc. for an aggregate purchase price of $67.7 million. Cornwall Electric is an Ontario-based electric transmission and distribution utility which supplies electricity to approximately 22,600 customers in the City of Cornwall, South Glengarry, South Stormont and the Ontario portion of the Mohawk Territory of Akwesasne. The acquisition is accounted for using the purchase method whereby the results of operations have been included in the consolidated financial statements commencing October 17, 2002.

The purchase price allocation to net assets based on their fair values is as follows:

(in thousands)	Canadian Niagara Power	Cornwall Electric	Total
Fair value assigned to net assets:			
Utility capital assets	27,185	32,405	59,590
Current assets	5,167	8,989	14,156
Long-term investments	1,264	–	1,264
Goodwill	5,898	20,938	26,836
Intangibles	27,639	–	27,639
Other assets	2,087	4,045	6,132
Current liabilities	(2,508)	(4,829)	(7,337)
Long-term debt	(15,000)	–	(15,000)
Future income taxes	(10,935)	6,206	(4,729)
Other liabilities	(2,799)	(2,622)	(5,421)
	37,998	65,132	103,130
Cash (bank indebtedness)	(2,784)	2,608	(176)
	35,214	67,740	102,954

18. Supplementary Information to Consolidated Statements of Cash Flows

(in thousands)	**2003**	2002
Interest paid	**$ 79,048**	$ 69,872
Income taxes paid	**$ 32,610**	$ 15,025

19. Partnership and Joint Venture

Exploits Partnership

Fortis owns 100% of Central Newfoundland Energy Inc. ("Central Newfoundland Energy"). Its principal activity is the 51% involvement in the Exploits Partnership project. The project is a partnership with Abitibi-Consolidated to construct, install and operate additional capacity at Abitibi-Consolidated's hydroelectric plant at Grand Falls-Windsor and to redevelop the forestry company's hydroelectric plant at Bishop's Falls, both in central Newfoundland. The operations commenced in November 2003. Abitibi-Consolidated continues to use the historical annual generation of the facilities while the additional energy resulting from the new development is being sold under a 30-year take-or-pay power purchase agreement with Newfoundland and Labrador Hydro. The project is financed principally with non-recourse debt. The financial results for the Exploits Partnership have been consolidated with the accounts of Fortis for the year ended December 31, 2003. There has been no impact on earnings in the current year.

Canadian Niagara Power Company, Limited

As outlined in Note 17, the Corporation and National Grid USA (Niagara Mohawk Holdings Inc. in 2001) each owned 50% of the outstanding shares of Canadian Niagara Power Company, Limited up to July 1, 2002. Both companies shared equally in management and earnings up to that date and, accordingly, the Corporation accounted for its investment in Canadian Niagara Power Company, Limited using proportionate consolidation.

The effect of the proportionate consolidation of Canadian Niagara Power Company, Limited is summarized as follows:

(in thousands)	2002
Earnings	
Operating revenue	$ 11,178
Operating expenses	6,470
Finance charges	640
Income taxes	1,580
Earnings	$ 2,488
Cash Flows	
Operations	$ (882)
Investing	(421)
Financing	1,303
Net cash flows	$ –

20. (a) Segmented Earnings Information

The accounting policies of the segments are described in the Summary of Accounting Policies. Information by reportable segment is as follows:

Year Ended December 31, 2003

(in thousands)

	Newfoundland Power	Fortis Ontario	Maritime Electric	Belize Electricity	BECOL	Fortis Properties	Corporate[1]	Inter-segment eliminations	Consolidated
Operating revenues	384,150	157,986	100,901	72,491	10,488	113,685	22,935	(19,556)	843,080
Operating expenses	279,763	111,956	67,836	49,574	1,796	72,614	5,005	(9,033)	579,511
Amortization	29,372	10,013	9,708	6,088	1,695	4,533	918	–	62,327
Operating income	75,015	36,017	23,357	16,829	6,997	36,538	17,012	(10,523)	201,242
Finance charges	30,009	9,240	9,178	5,946	7,259	17,117	13,329	(10,523)	81,555
Income taxes	14,945	9,951	5,941	975	–	8,454	(2,030)	–	38,236
Non-controlling interest	601	9	–	3,159	216	–	(116)	–	3,869
Preference share dividends	–	–	–	–	–	–	3,952	–	3,952
Earnings (Loss)	29,460	16,817	8,238	6,749	(478)	10,967	1,877	–	73,630
Goodwill	–	45,577	19,858	–	–	–	–	–	65,435
Identifiable assets, excluding goodwill	762,278	177,800	257,881	215,603	93,199	344,374	315,615	(21,604)	2,145,146
Capital expenditures	64,750	11,076	16,584	37,260	10,987	47,897	19,186	–	207,740

Year Ended December 31, 2002

(in thousands)

	Newfoundland Power	Fortis Ontario	Maritime Electric	Belize Electricity	BECOL	Fortis Properties	Corporate[1]	Inter-segment eliminations	Consolidated
Operating revenues	369,627	74,500	96,016	77,763	16,572	90,407	11,166	(20,586)	715,465
Operating expenses	261,531	51,223	65,562	51,405	1,777	55,450	4,097	(14,076)	476,969
Amortization	35,442	5,010	9,320	8,539	1,903	4,238	611	–	65,063
Operating income	72,654	18,267	21,134	17,819	12,892	30,719	6,458	(6,510)	173,433
Finance charges	26,853	2,892	9,262	6,575	7,859	14,516	12,017	(6,510)	73,464
Income taxes	16,381	6,187	5,249	1,004	–	6,938	(3,271)	–	32,488
Non-controlling interest	613	–	–	3,328	408	–	(120)	–	4,229
Earnings (Loss)	28,807	9,188	6,623	6,912	4,625	9,265	(2,168)	–	63,252
Goodwill	–	39,816	19,858	–	–	–	–	–	59,674
Identifiable assets, excluding goodwill	724,302	164,120	256,761	230,910	109,344	299,302	184,995	(42,409)	1,927,325
Capital expenditures	59,868	4,634	17,013	22,843	743	72,672	51,057	–	228,830

(1) Earnings received from Caribbean Utilities are included in Corporate operating revenues

20. (b) Geographical Segmented Information

Revenue

(in thousands)	2003	2002
Canada	$ 754,923	$ 629,000
Caribbean Region	83,526	82,784
United States	4,631	3,681
	$ 843,080	$ 715,465

Capital Assets and Goodwill

(in thousands)	2003	2002
Canada	$ 1,395,613	$ 1,269,475
Caribbean Region	257,014	268,715
United States	22,285	27,773
	$ 1,674,912	$ 1,565,963

21. Financial Instruments

Fair Values

Fair value estimates are made as of a specific point in time, using available information about the financial instruments and current market conditions. The estimates are subjective in nature involving uncertainties and significant judgment.

The carrying values of financial instruments included in current assets and current liabilities in the consolidated balance sheets approximate their fair value, reflecting the short-term maturity and normal trade credit terms of these instruments. The fair value of the long-term debt is based on current pricing of financial instruments with comparable terms. The fair value of forward foreign currency exchange contracts and interest rate swap contracts reflect the estimated amount the Corporation would have to pay if forced to settle all outstanding contracts at year end. This fair value reflects a point-in-time estimate that may not be relevant in predicting the Corporation's future income or cash flows.

Risk Management

The Corporation has exposure to foreign currency exchange rate fluctuations associated with its US dollar-denominated operations. The Corporation may periodically enter into hedges of its foreign currency exposures on its foreign investments by entering into offsetting forward exchange contracts. The Corporation does not hold or issue derivative financial instruments for trading purposes.

Foreign exchange translation gains and losses on foreign currency denominated financial instruments used to hedge foreign currency investments are recorded as an adjustment to the foreign exchange translation adjustment account.

Interest Rate Risk

Long-term debt is issued at fixed interest rates thereby minimizing cash flow and interest rate exposure. The Corporation is primarily subject to risks associated with fluctuating interest rates on its short-term borrowings. The Corporation designates its interest rate swap agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include payments made or received under the interest rate swaps.

Credit Risk

The Corporation is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments. Non-performance is not anticipated since these counterparties are highly rated financial institutions. In addition, the Corporation is exposed to credit risk from customers. However, the Corporation has a large and diversified customer base, which minimizes the concentration of this risk.

Rate Regulation

Belize Electricity operates a CPRSA which is approved by the PUC to recover excess energy costs over an established benchmark. This account minimizes the impact of changing energy costs on the financial results.

Newfoundland Power operates a weather normalization account, the balance of which is approved by the PUB annually, to adjust for the effect of variations in weather and stream-flow when compared to long-term averages. This account minimizes the impact of changing weather conditions on the financial results.

Pursuant to regulation governing Maritime Electric up to and including December 31, 2003, the Company maintained an energy cost adjustment mechanism to adjust the effect of variations in energy costs above or below $0.05/kWh. Maritime Electric also maintained a cost of capital adjustment account to adjust earnings based on a target return on average common equity. These adjustments minimized the impact of changing economic conditions on the financial results. Effective January 1, 2004, Maritime Electric will be governed under the provisions of the *Electric Power Act* and will apply for rate adjustments under a cost of service environment with the Island Regulatory and Appeals Commission.

22. Commitments

(a) On September 13, 2001, Newfoundland Power and Fortis closed a $46 million transaction to purchase 102,000 poles and related infrastructure from Aliant Telecom Inc. ("Aliant Telecom") in Newfoundland. On February 7, 2002 the Corporation closed a $2.2 million transaction to purchase 5,586 poles and related infrastructure from Aliant Telecom in Newfoundland. Remaining annual payments of $4.8 million are required from 2004 to 2005 under the purchase agreements.

22. Commitments (cont'd)

(b) On April 15, 2002, Canadian Niagara Power entered into a 10-year operating agreement to lease the assets of Port Colborne Hydro. Minimum annual lease payments under the agreement, which runs until April 2012, amount to $1.6 million.

(c) Maritime Electric has 2 take-or-pay contracts for either capacity or energy. The obligations are subject to force majeure provisions that impact the ability of the supplier to deliver or Maritime Electric to receive the energy contracted for. These contracts total approximately $44 million through October 2006.

(d) Business Acquisition Agreement and Subscription Receipt Offering

Business Acquisition

On September 15, 2003, Fortis entered into agreements to acquire all of the shares of the Alberta Utility and the British Columbia Utility from Aquila, Inc., a U.S. energy company based in Kansas City, for aggregate cash consideration of $1.36 billion subject to certain adjustments. The closing of the transaction is subject to fulfillment of customary conditions, including receipt of certain utility regulatory approvals, and is expected to occur in the first half of 2004.

Fortis has obtained commitments from a syndicate of chartered banks to provide the financing for the acquisition. Upon closing of the acquisition, Fortis intends to replace the acquisition financing with $350 million common equity (refer to Subscription Receipts offering), $200 million preferred equity and the remainder in long-term debt. Fortis plans to raise debt at the operating company levels as well as the Fortis level.

Upon close of this transaction, a portion of the deferred acquisition costs will be applied against proceeds on equity share issuances and the remainder will be amortized over the life of the long-term acquisition financing.

Subscription Receipts Offering

On October 8, 2003, Fortis issued 6,310,000 Subscription Receipts at $55.50 each for gross proceeds of approximately $350 million. The gross proceeds of the Offering will be used to finance a portion of the purchase consideration for the Alberta and British Columbia utility acquisitions. The gross proceeds from the sale of Subscription Receipts are held by an escrow agent pending, among other things, receipt of all regulatory and government approvals required to finalize the acquisition by Fortis of the Canadian regulated electricity assets of Aquila, Inc., and fulfillment or waiver of all other outstanding conditions precedent to closing the acquisition. Each Subscription Receipt will entitle the holder thereof to receive, on satisfaction of the closing conditions referred to above, and without payment of additional consideration, one Common Share of Fortis and a cash payment equal to the dividends declared on Fortis' Common Shares during the period from October 8, 2003 to the date of issuance of the Common Shares in respect of the Subscription Receipts. In the event that the applicable closing conditions are not satisfied prior to June 30, 2004, or if either of the share purchase agreements relating to the acquisition is terminated prior to such time, the holders of Subscription Receipts will be entitled to receive an amount equal to the full subscription price thereof plus their pro rata share of the interest earned or income generated on such amount.

23. Contingent Liabilities

Cornwall Electric

Cornwall Electric was acquired from Enbridge Energy Distribution Inc. ("Enbridge") on October 17, 2002. In May 2003, Cornwall Electric received a Canada Customs and Revenue Agency ("CCRA") reassessment disallowing amounts claimed as capital cost allowance ("CCA") in respect of a Class 14 asset of Cornwall Electric. As a result, the CCA deductions totalling $2.1 million claimed during the 1998 to 2001 taxation years were disallowed and Cornwall Electric was ordered to pay $0.7 million in taxes and interest. Cornwall Electric has also paid $0.5 million in taxes and interest to the Ministry of Finance of Ontario regarding the CCA claim during the 1998 to 2001 taxation years. Both these amounts have been recovered from Enbridge under the indemnity contained in the purchase and sale agreement with Enbridge. The opening undepreciated capital cost of the Class 14 asset is also being reduced from approximately $19.4 million to nil. The future tax asset associated with this Class 14 asset is currently valued at approximately $6.5 million on Cornwall Electric's balance sheet.

Cornwall Electric believes it has reported its tax position appropriately and has filed a Notice of Objection with CCRA. Should Cornwall Electric be unsuccessful in defending its position, Fortis would execute its indemnity

23. Contingent Liabilities (cont'd)

under the purchase and sale agreement with Enbridge. A $3.7 million potential exposure to Fortis, as estimated by management, has been recorded and $3.3 million has been recorded as an adjustment to the Cornwall Electric purchase price allocation equation, increasing both goodwill and future taxes payable, and $0.4 million has been recorded as an adjustment to the current income tax provision.

Newfoundland Power

In 2002, the CCRA confirmed a 2000 reassessment related to Newfoundland Power's 1993 taxation year, which included in income the value of electricity consumed in December 1993 but not billed until January 1994. Newfoundland Power's practice has been to record revenue on a billed basis. This method has been audited and previously accepted by CCRA and is in accordance with regulatory requirements.

Newfoundland Power believes it has reported its tax position appropriately and has filed a Notice of Appeal with the Tax Court of Canada. The Court action is not expected to begin until 2004. No provision has been made in the accounts for additional income taxes, if any, which may be determined to be payable. Should Newfoundland Power be unsuccessful in defending its method of recognizing its revenue, a liability of approximately $15.5 million, including accrued interest, would arise. In this event, Newfoundland Power would apply to the PUB to include the amount in the rate making process. Such an application might include a request to change the current practice of recognizing revenue when billed to the accrual method. If the PUB were to approve such a change in accounting practice, electricity consumed in December 2003 but billed in January 2004, valued at $23.3 million, would be included in revenue in 2003.

The provisions of the *Income Tax Act* require Newfoundland Power to deposit one half of the amount in dispute with CCRA. The amount currently deposited with CCRA arising from the reassessment is approximately $6.9 million.

Maritime Electric

Legal proceedings have been initiated against FortisUS Energy Corporation by the Village of Philadelphia, New York. The Village claims that FortisUS Energy Corporation should honour a series of current and future payments set out in an agreement between the Village and a former owner of the hydro site located in the Village of Philadelphia, now owned by FortisUS Energy Corporation, totalling approximately US$7.1 million (CDN$9.2 million). The First American Title Insurance Company is defending the action on behalf of Maritime Electric. Management believes that the claim will not be successful and therefore no provision has been made in these financial statements. Any amount that Maritime Electric could be required to pay would be charged to earnings in the year incurred.

24. Subsequent Event

On January 29, 2004, Fortis issued 8,000,000 First Preference Units of the Corporation. Each First Preference Unit consists of one Series D First Preference Share of the Corporation and one Series E First Preference Share Purchase Warrant ("Warrant"). If the Corporation closes its acquisition of Aquila, Inc.'s Canadian utilities by June 30, 2004, the holder of a Series D First Preference Share will have the right to convert on July 15, 2004, September 1, 2004 or December 1, 2004 such Series D First Preference Share into 0.25 of a Series E First Preference Share, provided such holder concurrently exercises one Warrant. Each Warrant will entitle the holder to acquire 0.75 of a Series E First Preference Share upon payment of $18.75 per Warrant. Consequently, each First Preference Unit will entitle the holder to obtain one fully paid and freely tradeable Series E First Preference Share in the event the acquisition closes by June 30, 2004. The Series D First Preference Shares and the Series E First Preference Shares, if issued, will initially yield 4.9% per annum for a 12-year term.

The purchase price of $6.25 per First Preference Unit resulted in initial gross proceeds of approximately $50 million. Provided the acquisition closes before June 30, 2004, upon conversion of the Series D First Preference Shares together with the concurrent exercise of the Series E First Preference Share Purchase Warrants and the additional cash payment associated therewith, Fortis will receive additional gross proceeds of $150 million which will be used to repay certain short-term indebtedness incurred by the Corporation on closing of the acquisition.

25. Comparative Figures

Certain comparative figures have been reclassified to comply with the current year's classifications.

Historical Financial Summary

Statements of Earnings *(in thousands $)*	**2003**	2002	2001	2000
Operating revenues	**843,080**	715,465	628,254	580,197
Operating expenses	**579,511**	476,969	418,117	417,607
Amortization	**62,327**	65,063	62,495	52,513
Finance charges: Interest	**81,555**	70,728	62,655	52,737
Dividends on preference shares	**–**	2,736	2,975	2,975
Income taxes	**38,236**	32,488	28,732	17,228
Results of discontinued operations and other unusual items	**–**	–	4,179	2,771
Equity income	**–**	–	–	–
Non-controlling interest	**3,869**	4,229	3,862	3,149
Dividends on preference shares	**3,952**	–	–	–
Earnings applicable to common shares	**73,630**	63,252	53,597	36,759
Balance Sheets *(in thousands $)*				
Current assets	**211,815**	180,122	134,935	165,814
Long-term investments	**167,752**	95,751	82,211	81,515
Other assets	**221,537**	204,837	123,011	116,912
Capital assets and income-producing properties	**1,609,477**	1,506,289	1,284,595	1,114,355
Total assets	**2,210,581**	1,986,999	1,624,752	1,478,596
Current liabilities	**297,277**	334,467	272,439	224,431
Long-term debt	**1,031,358**	940,910	746,092	678,349
Preference shares	**–**	–	50,000	50,000
Deposits due beyond one year	**–**	–	–	–
Deferred credits and future income taxes	**107,519**	85,824	70,283	82,174
Non-controlling interest	**36,770**	39,955	36,419	31,502
Shareholders' equity	**737,657**	585,843	449,519	412,140
Cash Flows *(in thousands $)*				
Operations	**160,634**	134,422	94,115	97,499
External financing	**228,059**	261,043	171,358	177,820
Investing activities	**308,006**	348,724	239,726	240,698
Dividends on common shares	**38,456**	35,070	29,913	27,661
Financial Statistics				
Return on average common shareholders' equity *(%)*	**12.30**	12.23	12.44	9.73
Capitalization Ratios *(%)* (year end)				
Long-term debt (excluding current portion)	**57.1**	60.1	58.2	57.8
Non-controlling interest	**2.0**	2.5	2.8	2.7
Preference shares and equity portion of convertible debentures	**6.9**	0.1	3.9	4.3
Common shareholders' equity	**34.0**	37.3	35.1	35.2
Interest Coverage *(x)*				
Debt	**2.2**	2.3	2.3	2.1
All fixed charges	**2.1**	2.2	2.2	1.9
Capital expenditures *(in thousands $)*	**207,740**	228,830	149,455	157,652
Common share data				
Book value per share (year end) *($)*	**35.27**	34.00	30.01	27.89
Average common shares outstanding *(in thousands)*	**17,309**	16,277	14,878	13,517
Earnings per common share *($)*	**4.25**	3.89	3.60	2.72
Dividends declared per common share *($)*	**2.10**	1.99	1.88	1.84
Dividends paid per common share *($)*	**2.08**	1.94	1.87	1.84
Dividend payout ratio *(%)*	**48.9**	49.9	51.9	67.6
Price earnings ratio *(x)*	**13.9**	13.5	13.0	13.2
Share trading summary				
Closing price *($)* (TSX)	**58.90**	52.50	46.95	36.00
Volume *(in thousands)*	**7,795**	5,419	5,365	6,690

Note: Certain comparative figures have been reclassified to conform with the current year's presentation.

1999	1998	1997	1996	1995	1994	1993
505,218	472,725	486,662	474,293	447,035	388,558	343,252
356,227	339,429	341,024	334,388	315,003	271,607	241,310
45,407	42,428	41,147	35,993	37,998	32,722	27,513
43,090	40,662	38,658	38,487	37,246	28,814	25,885
2,975	2,975	6,232	7,325	4,448	4,350	4,350
27,476	22,998	29,449	28,029	20,334	23,040	18,827
(57)	3,696	369	–	–	–	–
–	–	–	–	–	–	2,396
803	515	515	1,026	1,414	1,062	1,480
–	–	–	–	–	–	–
29,183	27,414	30,006	29,045	30,592	26,963	26,283
92,862	94,123	78,603	70,456	72,659	78,230	57,504
–	–	–	–	–	–	36,574
160,998	162,487	160,445	160,470	120,289	94,618	57,398
984,737	780,582	778,348	766,608	723,461	664,713	508,213
1,238,597	1,037,192	1,017,396	997,534	916,409	837,561	659,689
229,569	147,764	172,158	172,493	153,368	160,864	102,660
487,828	424,275	385,627	335,654	285,343	264,699	221,988
50,000	50,000	50,000	100,000	100,000	50,000	50,000
15,640	15,745	20,444	17,448	16,703	18,172	19,683
82,366	52,301	54,194	53,658	47,307	48,337	25,621
29,381	8,430	8,430	8,430	18,990	20,702	10,905
343,813	338,677	326,543	309,851	294,698	274,787	228,832
84,679	68,898	63,202	86,351	60,701	62,134	62,194
66,797	15,858	16,721	33,992	60,057	64,557	4,174
122,469	65,882	54,093	95,838	103,078	106,405	48,924
24,303	23,824	22,968	22,416	22,048	24,136	21,893
8.55	8.24	9.43	9.61	10.74	10.71	11.84
53.5	51.7	50.0	44.5	41.8	44.3	43.6
3.2	1.0	1.1	1.1	2.7	3.3	2.2
5.5	6.1	6.5	13.3	14.1	8.1	9.7
37.8	41.2	42.4	41.1	41.4	44.3	44.5
2.3	2.2	2.6	2.6	2.4	2.8	2.7
2.1	2.0	2.0	1.9	2.0	2.2	2.2
86,475	65,468	49,773	53,420	89,893	51,249	43,752
26.21	26.09	25.58	24.83	24.18	23.29	22.13
13,047	12,908	12,623	12,319	12,100	10,949	10,270
2.24	2.12	2.38	2.36	2.53	2.46	2.56
1.82	1.80	1.77	1.72	1.70	1.64	1.56
1.81	1.80	1.76	1.72	1.69	1.62	1.54
80.8	84.9	73.9	72.9	66.8	65.9	60.2
14.0	18.0	17.6	14.4	10.8	10.5	11.2
31.40	38.25	42.00	34.00	27.25	25.75	28.63
2,256	3,089	3,380	3,405	2,018	2,030	3,041

Corporate Directory

Fortis Inc.

Directors: Angus A. Bruneau (Chair)
C. Bruce Chafe
Darryl D. Fry
Geoffrey F. Hyland
Linda L. Inkpen
H. Stanley Marshall
John S. McCallum
Roy P. Rideout

Officers: H. Stanley Marshall
President and Chief Executive Officer

Barry V. Perry
Vice President, Finance and Chief Financial Officer

Ronald W. McCabe
General Counsel and Corporate Secretary

Donna G. Hynes
Assistant Secretary

Newfoundland Power Inc.

Directors: C. Bruce Chafe (Chair), Peter W. Fenwick, Leslie E. Galway, Rex V. Gibbons, Chris Griffiths, James A. Lea, H. Stanley Marshall, David G. Norris, Karl W. Smith, Dell Texmo, Peter Woodward, Lynn R. Young

Officers:
Karl W. Smith, President and Chief Executive Officer
Lisa A. Hutchens, Vice President, Finance and Chief Financial Officer
Phonse J. Delaney, Vice President, Engineering and Operations
Michael A. Mulcahy, Vice President, Customer and Corporate Services
Peter S. Alteen, Vice President, Regulatory Affairs and General Counsel

FortisOntario Inc.

Directors: Richard Drouin (Chair), Peter E. Case, William J. Daley, Philip G. Hughes, Geoffrey F. Hyland, H. Stanley Marshall, Karl W. Smith

Officers:
William J. Daley, President and Chief Executive Officer
Frederick J. O'Brien, Vice President, Operations
R. Scott Hawkes, Vice President, Corporate Services, General Counsel and Corporate Secretary
Ronald W. McCabe, Assistant Corporate Secretary

Maritime Electric Company, Limited

Directors: A. James Casey (Chair), William J. Daley, Kimberley D. Horrelt, James A. Lea, H. Stanley Marshall, R. Elmer MacDonald, Michael A. Pavey, David W. Rodd, Eugene P. Rossiter, John C. Walker

Officers:
James A. Lea, President and Chief Executive Officer
J. William Geldert, Vice President, Finance, CFO and Corporate Secretary
John D. Gaudet, Vice President, Operations

Belize Electricity Limited

Directors: Robert Usher (Chair), Fernando E. Coye, Philip G. Hughes, James A. Lea, H. Stanley Marshall, Karl H. Menzies, Yasin Shoman, Lynn R. Young

Officers:
Lynn R. Young, President and Chief Executive Officer
Rene J. Blanco, Vice President, Finance and Chief Financial Officer
Derek C. Davis, Vice President, Energy Supply and Planning & Engineering
Felix Murrin, Vice President, Operations
Joseph Sukhnandan, Vice President, Special Projects and Generation
Juliet Estell, Company Secretary

Belize Electric Company Limited

Directors: H. Stanley Marshall, Yasin Shoman, Lynn R. Young

Officers:
H. Stanley Marshall, President
John G. Evans, Vice President
Karl W. Smith, Secretary
Joseph Sukhnandan, Assistant Secretary

Caribbean Utilities Company, Ltd.

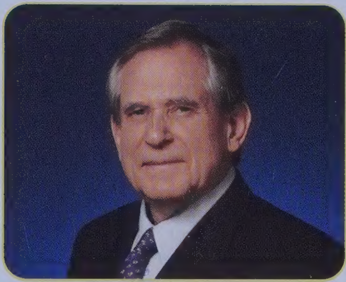
Directors: David E. Ritch (Chair), Frank J. Crothers (Vice Chair), Philip A. Barnes, Leonard N. Ebanks, Lewis M. Ebanks, J. F. Richard Hew, Philip G. Hughes, Joseph A. Imparato, H. Stanley Marshall, Raul O. Nicholson-Coe, Peter A. Thomson

Officers:
Peter A. Thomson, President and Chief Executive Officer
J. F. Richard Hew, Executive Vice President and Chief Operating Officer
Eddinton M. Powell, Vice President, Finance and Chief Financial Officer
William J. N. Forsythe, Vice President and Chief Information Officer
Robert D. Imparato, Company Secretary
Deborah E. Bergstrom, Vice President, Customer and Corporate Services
Robert L. Smith, Vice President, Production and Engineering
J. Lee Tinney, Vice President, Transmission and Distribution

Fortis Properties Corporation

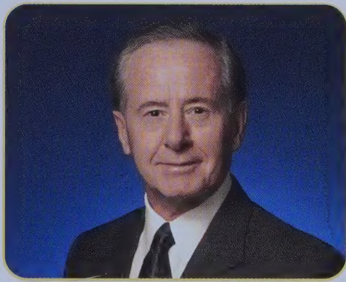
Directors: Linda L. Inkpen (Chair), Angus A. Bruneau, C. Bruce Chafe, H. Stanley Marshall, John C. Walker

Officers:
John C. Walker, President and Chief Executive Officer
Neal J. Jackman, Vice President, Finance and Chief Financial Officer
Nora M. Duke, Vice President, Hospitality Services
Stanley D. Collins, Vice President, Operations – Newfoundland
Wayne W. Myers, Vice President, Operations – Maritimes
Ronald W. McCabe, General Counsel and Corporate Secretary



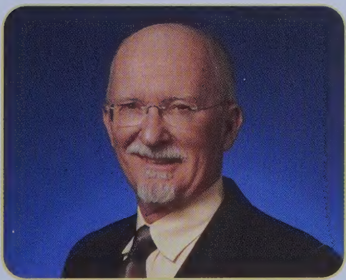
Angus A. Bruneau
Chair, Fortis Inc.
St. John's, Newfoundland and Labrador

Dr. Bruneau, 68, joined the Fortis Inc. Board in 1987 and is Chair of the Board. He retired as CEO of Fortis Inc. in 1996. Dr. Bruneau is a Director of Fortis Properties Corporation, Petro-Canada, SNC-Lavalin Group Inc., Inco Limited, Canada's Top 40 Under 40, Canadian Institute of Child Health, Sustainable Development Technology Canada and Festival 500.



C. Bruce Chafe
Corporate Director
St. John's, Newfoundland and Labrador

Mr. Chafe, 67, joined the Fortis Inc. Board in 1997. He was appointed Chair of the Board of Newfoundland Power Inc. in 2000 and is a Director of Fortis Properties Corporation. Mr. Chafe is also a Director of several private investment firms. He is a retired senior partner of Deloitte & Touche LLP.



Darryl D. Fry
Corporate Director
Osprey, Florida

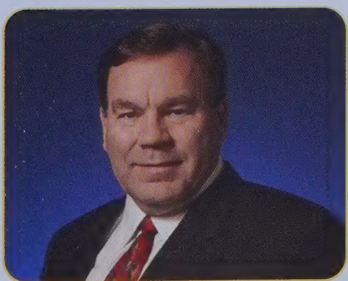
Mr. Fry, 65, joined the Fortis Inc. Board in May 1998. He retired as CEO of Cytec Industries in 1998 and retired as Chairman in 1999. Mr. Fry continued to serve as a Director of Cytec Industries until January 2001.

Geoffrey F. Hyland
President and CEO, ShawCor Ltd.
Alton, Ontario

Mr. Hyland, 59, joined the Fortis Inc. Board in May 2001. In addition to serving on the Board of ShawCor Ltd., he serves as a Director of Enerflex Systems Ltd. and Exco Technologies Limited.

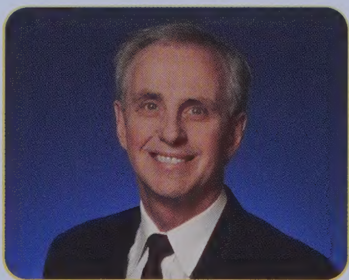
Linda L. Inkpen
Medical Practitioner
St. Phillip's, Newfoundland and Labrador

Dr. Inkpen, 56, joined the Fortis Inc. Board in 1994. She was appointed Chair of the Board of Fortis Properties Corporation in 2000 and is past Chair of Newfoundland Power Inc. Dr. Inkpen is a member of the National Roundtable on the Economy and the Environment.



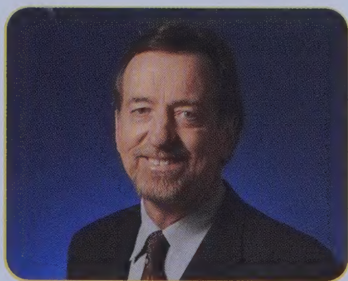
H. Stanley Marshall
President & CEO, Fortis Inc.
St. John's, Newfoundland and Labrador

Mr. Marshall, 53, has served on the Fortis Inc. Board since 1995. He joined Newfoundland Power Inc. in 1979 and was appointed President and CEO of Fortis Inc. in 1996. Mr. Marshall serves on the Boards of all Fortis companies and is a Director of Toromont Industries Ltd.



John S. McCallum
Professor of Finance, University of Manitoba
Winnipeg, Manitoba

Dr. McCallum, 60, joined the Fortis Inc. Board in July 2001. He was Chairman of Manitoba Hydro from 1991 to 2000 and Policy Advisor to the Federal Minister of Finance from 1984 to 1991. Dr. McCallum also serves as a Director of Investors Group Inc., Toromont Industries Ltd. and Wawanesa.



Roy P. Rideout
Corporate Director
Halifax, Nova Scotia

Mr. Rideout, 56, joined the Fortis Inc. Board in May 2001. He retired as Chairman and CEO of Clarke Inc. in October 2002. Prior to 1998, Mr. Rideout served as President of Newfoundland Capital Corporation Limited. He serves as a Director of the Halifax International Airport Authority and NAV CANADA.

Investor Information

Transfer Agent and Registrar

Computershare Trust Company of Canada ("Computershare") is responsible for the maintenance of shareholder records and the issue, transfer and cancellation of stock certificates. Transfers can be effected at their Halifax, Montreal and Toronto offices. Computershare also distributes dividends and shareholder communications. Inquiries with respect to these matters and corrections to shareholder information should be addressed to the Transfer Agent.

Computershare Trust Company of Canada

9th Floor, 100 University Avenue
Toronto, ON M5J 2Y1
T: 514.982.7270 or 1.866.586.7638
F: 416.263.9394 or 1.888.453.0330
E: service@computershare.com
W: www.computershare.com

Direct Deposit of Dividends

Shareholders may obtain automatic electronic deposit of dividends to their designated Canadian financial institutions by contacting the Transfer Agent.

Valuation Day

For capital gains purposes, the valuation day prices are as follows:

December 22, 1971	$ 6.125
February 22, 1994	$ 28.625

Dividend Reinvestment Plan and Consumer Share Purchase Plan

Fortis Inc. offers a Dividend Reinvestment Plan (1) and a Consumer Share Purchase Plan (2) to Common Shareholders as a convenient method of increasing their investments in Fortis Inc. Participants have dividends plus any optional cash payments (minimum of $100; maximum of $20,000 annually) automatically deposited in the Plans to purchase additional Common Shares. Shares are sold quarterly on March 1, June 1, September 1 and December 1 at the average market price then prevailing on the Toronto Stock Exchange. Inquiries should be directed to the Transfer Agent, Computershare Trust Company of Canada.

(1) All registered shareholders of Common Shares who are residents of Canada are eligible to participate in the Dividend Reinvestment Plan. Shareholders residing outside Canada may also participate unless participation is not allowed in that jurisdiction. Residents of the United States, its territories or possessions are not eligible to participate.

(2) The Consumer Share Purchase Plan is offered to residents of the provinces of Newfoundland and Labrador and Prince Edward Island.

Share Listings

The Common Shares, First Preference Shares, Series C, Subscription Receipts and First Preference Units of Fortis Inc. are listed on the Toronto Stock Exchange and trade under the ticker symbols FTS, FTS.PR.C, FTS.R and FTS.UN, respectively.

Common Share Prices

	High	Low	Close
2003	60.95	46.50	58.90
2002	53.10	43.05	52.50
2001	47.55	34.25	46.95
2000	36.75	27.50	36.00
1999	39.70	29.15	31.40
1998	48.10	35.00	38.25
1997	42.50	31.30	42.00
1996	34.70	27.00	34.00
1995	27.75	24.25	27.25
1994	30.00	23.75	25.75

Duplicate Annual Reports

While every effort is made to avoid duplications, some shareholders may receive extra reports as a result of multiple share registrations. Shareholders wishing to consolidate these accounts should contact the Transfer Agent.

Dividend* and Earnings Dates

Expected Dividend Record Dates

May 7, 2004	August 6, 2004
November 5, 2004	February 4, 2005

Expected Dividend Payment Dates

June 1, 2004	September 1, 2004
December 1, 2004	March 1, 2005

Expected Earnings Release Dates

April 28, 2004	August 3, 2004
November 2, 2004	February 8, 2005

Annual General Meeting

Wednesday, May 12, 2004
11:00 a.m., Newfoundland Standard Time
Holiday Inn St. John's
180 Portugal Cove Road
St. John's, NL, Canada

Analyst and Investor Inquiries

Manager, Investor Relations
T: 709.737.2800
F: 709.737.5307
E: investorrelations@fortisinc.com

The declaration and payment of dividends are subject to the Board of Directors' approval.

Fortis Inc.

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F: 709.737.5832
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1130 Bertie Street
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F: 905.871.8676
W: www.fortisontario.com

Maritime Electric Company, Limited
180 Kent Street
PO Box 1328
Charlottetown, PE
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F: 902.629.3665
W: www.maritimeelectric.com

Belize Electricity Limited
2 1/2 Miles Northern Highway
PO Box 327
Belize City, Belize
Central America
T: 501.227.0954
F: 501.223.0891
W: www.bel.com.bz

Belize Electric Company Limited
2 1/2 Miles Northern Highway
PO Box 327
Belize City, Belize
Central America
T: 501.824.3016
F: 501.824.4512

Caribbean Utilities Company, Ltd.
PO Box 38 GT
Grand Cayman, Cayman Islands
T: 345.949.5200
F: 345.949.4621
W: www.cuc-cayman.com

Fortis Properties Corporation
The Fortis Building, Suite 1201
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St. John's, NL
Canada A1B 3T2
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F: 709.737.3785
W: www.fortisproperties.com

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Design and Production: CCL Milestone, St. John's, Newfoundland and Labrador; Moveable Inc., Toronto, Ontario

Printer: Print Atlantic, St. John's, Newfoundland and Labrador

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St. John's, NL
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www.fortisinc.com